

**SUGGESTED MEASURES TO PREVENT, DETECT AND REPORT MONEY  
LAUNDERING TRANSACTIONS**

From the desk of Principal Officer appointed under PMLA, 2002 by DURGA PRASAD & CO

1. **INTRODUCTION**

**PREVENTION OF MONEY LAUNDERING ACT, 2002**

Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July 1, 2005.

The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock brokers, sub-brokers and depository participants) to verify identity of clients, maintain records and furnish information on suspicious transactions to the Financial Intelligence Unit (FIU) - INDIA

**FINANCIAL INTELLIGENCE UNIT (FIU) - INDIA**

The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

## POLICY OF DURGA PRASAD & CO

Durga Prasad & co has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall make a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002.

## OBJECTIVE OF THESE GUIDELINES

The purpose of this document is to guide all the employees of WBPL and employees of its associates on the steps that they are required to take and implement to prevent and identify any money laundering or terrorist financing activities. It shall be the responsibility of each of the concerned employees that they should be able to satisfy themselves that the measures taken by them are adequate, appropriate and follow the spirit of these measures and the requirements as enshrined in the "Prevention of Money Laundering Act, 2002".

Some of these suggested measures may not be applicable to every circumstance or to each department, Branch / Sub-broker. However, each entity should consider carefully the specific nature of its business, type of customer and transaction to satisfy itself that the measures taken by the employees are adequate and appropriate to follow the spirit of these guidelines.

## 2. CUSTOMER ACCEPTANCE POLICY

### ROLE OF CENTRAL PROCESSING CELL (CPC) / RELATIONSHIP MANAGER

In-person verification – each client should be met in person. Either the client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed

Obtain complete information from the client. It should be ensured that the initial forms taken by the clients are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. Ensure that the 'Know Your Client' policy is followed without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) / Forward Market Commission / Exchanges / Depository are obtained and verified.

Scrutinize the forms and details submitted by the client thoroughly and cross check the details with various documents obtained like identity of the client, source of income. If required, ask for any additional details like income tax returns, salary slips, etc. to satisfy yourself whenever there is a doubt.

As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original. [Please put “verified with original” stamp as proof of verification]

Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis by calling the client on phone at the given phone number, verifying by visiting personally, if considered necessary, at the address given in KYC and other details.

Check whether the client’s identify matches 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/regulatory agency worldwide.

Accounts should be opened only on receipt of mandatory information along with authentic supporting documents as per the guidelines. Any reluctance by the client to provide information should be a sufficient reason to reject the client.

Check if client is having multiple accounts.

Scrutinize minutely the records / documents pertaining to clients of special category (like Walk-in Clients, Non-resident clients, High Net worth Clients, Trusts, Charities, NGOs, Companies having close family shareholding, Politically exposed persons, persons of foreign origin, Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange, etc.) or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud level is high.

For scrutiny / background check of the clients / HNI, websites such as [www.watchoutinvestors.com](http://www.watchoutinvestors.com) should be referred. Also, Prosecution Database / List of Vanishing Companies available on [www.sebi.gov.in](http://www.sebi.gov.in) and RBI Defaulters Database available on [www.cibil.com](http://www.cibil.com) should be checked.

Keep watch on the well-come kits or other documents / letters received back undelivered at the address given by the client. Branch Manager should be alerted, client be contacted immediately on telephone and the trading, if suspected, should be suspended

Client authentication process through a voice recording process

Authenticity and credibility of Mass affluent clients should be verified by conducting onsite visit.

Employee of Durga Prasad & co should not preferably sign as witness on the Client Registration Form.

If Employee of Durga Prasad & co introduces the client, exact relation of the client with such employee should be documented.

CPC not to open account if unable to verify the identity of the clients based on the documents provided. Such cases be reported immediately to Mr. K.Pavan Kumar Compliance Officer

Review the above details on an going basis to ensure that the transactions being conducted are consistent with our knowledge of customers, its business and risk profile, taking into account, where necessary, the customer's source of funds.

Verify the accuracy of the identity of the costumer from the Annex 1.

#### ROLE OF RELATIONSHIP MANAGER / DEALER / CORPORATE SETTLEMENT / ACCOUNTS TEAM

Ensure that there is no cash / currency receipt/payment to the client.

Ensure that there are no third party receipt into / payment from the client account.

Ensure that there are no unusual activities by the Client. Few of such unusual activities are:

- Buying and selling of securities that does not make economic sense
- Transaction indicative of insider trading and / or market manipulation, for eg. Timely trading, trading outside normal patterns and the use of leverage or margin to increase purchasing power
- Frequent redemptions

Guard against "wilful blindness" and "tipping off" offence

- (a) Wilful blindness happens when the staff is very interested in the client's business and cons himself/herself into believing any superficial response to questions by the Client
- (b) The tipping off offence happens when the staff tips off the client to an existing / a possible internal investigation on the clients account. This can potentially also be committed by sharing details of our due diligence process/ documents

Flag for scrutiny / re-profiling should be raised if there is a change in client's sources of wealth/funds or the ability to accumulate assets or any other significant changes in the client's background or financial standing. Also, if the client engages in transactions which are inconsistent with their risk tolerance levels

Ensure that any information relating Money Laundering gathered during formal or informal conversation with clients is passed on to the Principal Officer through your Branch/Department Head

### 3. MAINTENANCE OF RECORDS BY CPC, ACCOUNTS AND RMS

Proper records should be maintained and should be in a position to be retrieved within a short time.

All records should be preserved as required by law and by the regulatory authorities. Additionally, the following records should be preserved for a period of ten years from the date of cessation of the transactions with the client. In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, or where there is litigation they should be retained until it is confirmed that the case has been closed:

- The records of the identity of clients
- The records of all suspicious transactions

### CLIENT DUE DILIGENCE MEASURES

Clients be Sub-divided into High, Medium and Low-risk categories. High-risk accounts should be scrutinized regularly.

For corporate clients, revised annual data (Financial / Shareholding) should be collected periodically at end of each financial year.

Credit worthiness should be verified in-house through independent supporting documents.

### AUDIT TRAIL

To enable any competent investigating authorities to trace through the chain of events, the following information for the accounts of customers is required to be maintained:

- The beneficial owner of the account;
- Inflow/outflow of funds routed through the account / and for the selected Transactions:

- The origin of the funds
- The form in which the funds were offered or withdrawn, e.g. cash, cheques, bank drafts / pay order etc.
- The identity of the person undertaking the transaction

The destination of the funds  
The form of instruction and authority  
The identity of official who made in-person verification  
The identity of official who verified copies documents obtained from client with originals

#### 4. ROLE OF RISK MANAGEMENT TEAM

RMS gives exposure to clients based on margin available in the system and clean exposure to selected clients based on the recommendations of Business Managers. It is the duty of RMS to validate such exposures with the financial details provided by the client in KYC form. Where there is a trading activity of the client, which is not commensurate with the financial details declared by the client, it should be analyzed and referred to the Principal Officer with reasons of suspicion.

#### MONITORING OF TRANSACTIONS

Scrutinize unusually large transactions like, clients having traded in scrips/shares of a company for a quantity of 20,000 or more in a single day and volume in that scrip of that client is 5% or more of the total volume in that scrip at the Exchange.

Check trade log for indication of negotiated trades (if any).

Check for any relation of the client with the company / directors / promoters.

Check previous trading pattern of the client in that particular scrip.

Scrutinize bulk deal transactions by sample check. A 'bulk' deal constitutes transaction in a scrip (on a Exchange) where total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the Exchange

Select randomly a few clients, pick up some of their high value transactions and scrutinize to check whether they are of suspicious nature or not.

If there is a substantial increase in turnover in a dormant account then it, should be brought into the notice of the Branch Manager. Review balances and trading in the dormant accounts. Be vigilant on the movement of credit balances from the dormant account.

Analysis be carried out by RMS to identify clients with huge and regular losses and who are still placing trades/orders. Identify the sources of funds in such cases.

Suspicious transactions to include 'transactions integrally connected' as well as 'transactions remotely connected or related'

#### Dormant Accounts

RMS to keep a close watch on inactive client codes/accounts which are inoperative for a minimum period of six months. Inactive codes/accounts, generally, mean codes/accounts which are not used by clients in the preceding six months. All inoperative accounts should be de-activated and any further trading should be possible only through Regional Offices

Any new requests for orders to trade should be accepted from such clients only on receipt of specific written request from the client for permission to trade along with completion of all required formalities of KYC, if necessary.

## MONITORING OF PROPRIETARY TRANSACTIONS OF ASSOCIATES

For scrutiny / background check of the Associates (Sub-brokers, Channel Partners, Authorized Persons) websites such as [www.watchoutinvestors.com](http://www.watchoutinvestors.com) should be referred. Also, verify Prosecution Database / List of Vanishing Companies available on [www.sebi.gov.in](http://www.sebi.gov.in)

Check for high volume in proprietary account of channel partner / Sub-broker and his/her relations.

Scrutinize Demat account of channel partner / Sub Broker (if DP account is with WBPL

List all off market inward / outward transaction and seek explanations from concerned Channel partner separately

Check for third party funds (cheques received from bank accounts other than mapped bank accounts and demand drafts / pay orders)

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## 5. HIGH STANDARDS IN HIRING POLICIES

### Role of Human Resource Department

The Human Resource Department and other Department Heads involved in hiring new employees should have adequate screening procedure in place to ensure high standards in hiring new employees.

Bona fides of employees be checked to ensure that the employees do not have any link with terrorist or other anti-social organizations.

Not only “Know Your Customer” (KYC) documentations but also “Know Your Employee” documents should be in place.

## ROLE OF REGIONAL HEADS / REGIONAL MANAGERS / BRANCH MANAGERS

Being in the field, they have market intelligence about potential mischief-makers, which should be brought to the notice of CPC, Legal and RMS.





## WHAT IS A SUSPICIOUS TRANSACTION

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 circumstance of unusual or unjustified complexity; or
- c) Appears to have no economic rationale or bona fide purpose

## REASONS FOR SUSPICION

### Identity of Client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non-face to face client
- Clients in high-risk jurisdiction
- Clients introduced by banks or affiliates or other clients based in high risk jurisdictions
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other established business entities
- Receipt back of well -come kit undelivered at the address given by the client

### Suspicious Background

- Suspicious background or links with criminals

### Multiple Accounts

- Large number of accounts having a common parameters such as common partners / directors / promoters / address/ email address / telephone numbers introducer or authorized signatory
- Unexplained transfers between such multiple accounts.

### Activity In Accounts

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business
- Substantial increases in business without apparent cause



## 10. WHEN TO REPORT

In terms of the PMLA rules, brokers and sub-brokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) 6<sup>th</sup> Floor, Hotel Samarat, Chanakyapuri, New Delhi-110021 as per the schedule given below:

Report	Description	Due Date
CTR	All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency 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	15th day of the succeeding month
CCR	All cash transactions where 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*	Not later than seven working days from the date of occurrence of such transaction*
STR	All suspicious transactions whether or not made in cash	Not later than seven working days on being satisfied that the transaction is suspicious*

\* Modified by Notification No 4/2007 dated 24.05.07

In view of the same, Branches/Departments/Sub-brokers / Channel Partners are requested to report the Cash transactions, on monthly basis, to the Compliance Officer by the 5<sup>th</sup> day of the following month and also suspicious transactions to the Compliance Officer within 3 working days of establishment of such transaction to enable the Compliance Officer to co-ordinate with the Principal Officer to report the same to the Director, Financial Intelligence Unit-India (FIU-IND) within the stipulated time.

However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion. In

exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken

11. REPORTING OF SUSPICIOUS TRANSACTIONS TO FIU-IND THROUGH INSPECTION DEPARTMENT

All Branch Heads/ Department Heads/ Sub-brokers / Channel Partners are required to report suspicious transactions to the Compliance Officer through Head – Operations

The inspection department to compile all suspicious transactions  
The Principle Officer to report all such transactions to FIU-IND

12. OTHER IMPORTANT POINTS

Reasons for treating any transaction or a series of transactions as suspicious should be recorded. It should be ensured that there is no undue delay in arriving at such a conclusion.

Utmost confidentiality should be maintained in submitting the information.

The reports may be transmitted by email/speed/registered post/fax at the Head Office addressed to the Principal Officer.

No restriction may be put on operations in the accounts where a Suspicious Transaction Report has been made.

It should be ensured that there is no tipping off to the client at any level.

13. FORMULATE/REVIEW/TRAINING ON THE INTERNAL POLICY AND PROCEDURE TO ALL STAFF/SUB-BROKERS

This internal policy and procedure on “The Prevention of Money Laundering Act, 2002” should be brought to the notice of all employees by HRD through the Company’s intranet.

All sub-brokers, associates and Channel Partners shall be intimated by the Franchisee Service Team and Supervising Regional Hub/Satellite Hub/Branch and updated on the applicable provisions of “The Prevention of Money Laundering Act, 2002” and the reporting mechanism by way of a circular.

HRD shall formulate program for Staff Training and implementing specific procedures for customer identification and retaining internal records of transactions. The Internal Policy should be placed before the AC and if any changes in the policy are warranted, the revised policy should be placed before the AC for review and approval.

14. DESIGNATED COMPLIANCE OFFICER

In case any further information /clarification is required in this regard, the 'Compliance Officer' may be contacted.

Mr. K.PAVAN KUMAR

DURGA PRASAD & CO  
# 307, PANCOME BUSINESS CENTRE,  
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Annex-I  
Customer Identification Procedure  
Features to be verified and documents that may be obtained from customers

Features	Documents
<p>Accounts of individuals</p> <ul style="list-style-type: none"> <li>- Legal name and any other names used</li>   <li>- Correct permanent address</li> </ul>	<p>(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving licence (v) Identity card (subject to the bank's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank</p> <p>(i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the bank) (any one document which provides customer information to the satisfaction of the bank will suffice )</p>
<p>Accounts of companies</p> <ul style="list-style-type: none"> <li>- Name of the company</li> <li>- Principal place of business</li> <li>- Mailing address of the company</li> <li>- Telephone/Fax Number</li> </ul>	<p>(i) Certificate of incorporation and Memorandum &amp; Articles of Association (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill</p>
<p>Accounts of partnership firms</p> <ul style="list-style-type: none"> <li>- Legal name</li> <li>- Address</li> <li>- Names of all partners and their addresses</li> <li>- Telephone numbers of the firm and partners</li> </ul>	<p>(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm/partners</p>
<p>Accounts of trusts &amp; foundations</p> <ul style="list-style-type: none"> <li>- Names of trustees, settlers, beneficiaries</li> </ul>	<p>(i) Certificate of registration, if registered</p>

<p>and signatories</p> <ul style="list-style-type: none"><li>- Names and addresses of the founder, the managers/directors and the beneficiaries</li><li>- Telephone/fax numbers</li></ul>	<p>(ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders/managers/directors and their addresses (iv) Resolution of the managing body of the foundation/association (v) Telephone bill</p>
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