

ELBEE SECURITIES PRIVATE LIMITED

POLICY FOR PREVENTION OF MONEY LAUNDERING (PMLA), ANTI MONEY LAUNDERING (AML) & COMBATING THE FINANCING OF TERRORISM (CFT)

PART - A: OVERVIEW

ELBEE SECURITIES PVT LTD, herewith referred as ESPL, is the SEBI registered Stock Broker & Depository Participant. The under-mentioned policy for Prevention of Money Laundering (PMLA) & Anti-Money Laundering (AML) is created by the Compliance Officer and approved by the Board of Directors on **31.07.2023**.

INTRODUCTION:

The Prevention of Money Laundering Act, 2002 (“PMLA”) and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (Maintenance of Records Rules), as amended from time to time and notified by the Government of India, mandate every reporting entity [which includes intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) and stock exchanges], to adhere to client account opening procedures, maintain records and report such transactions as prescribed therein to the relevant authorities. The Maintenance of Records Rules, inter alia, empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and the form in which such information is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by regulator for detecting the transactions specified in the Maintenance of Records Rules and for furnishing information thereof, in such form as may be directed by the regulator.

The enclosed guidelines stipulate the essential principles for combating Money Laundering (ML) and Terrorist Financing (TF) and provides detailed procedures and obligations to be followed and complied with by all the registered intermediaries.

SEBI has from time to time issued circulars/directives with regard to Know Your Client (KYC), Client Due Diligence (CDD), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) specifying the minimum requirements. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of money laundering and suspicious transactions undertaken by clients.

The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (PMLA). The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities.

These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act), Stock Exchanges, Depositories and other recognised entities under the SEBI Act and Regulations and rules thereunder. While it is recognized that a “one- size-fits-all” approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

Accordingly, the Company has laid down following policy guidelines to prevent money laundering and shall put in place a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002. This policy is applicable to Employees and Authorized Person (AP).

Designated Director: MANOJ KUMAR AGARWAL is appointed as the Designated Director.

Principal Officer: MANISH AGARWAL is appointed as the Principal Officer.

Both Principal Officer and Designated Director have long-standing experience in the capital market, and are qualified by experience, knowledge and training. The duties of the Principal Officer will include monitoring the Elbee Securities Pvt Ltd compliance with AML obligations and overseeing communication and training for employees. He will be responsible for implementation of internal controls & procedures for identifying and reporting any suspicious transaction or activity to the concerned authorities. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND).

ESPL has provided the FIU with contact information for the Principal Officer and Designated Director, including name, title, mailing address, e-mail address, telephone number and facsimile number. Elbee Securities Pvt Ltd will promptly notify FIU of any change to this information.

BACKGROUND

As per the provisions of PMLA and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (Maintenance of Records Rules), as amended from time to time and notified by the Government of India, every reporting entity (which includes intermediaries registered under section 12 of the SEBI Act, i.e. a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the SEBI Act and stock exchanges), shall have to adhere to the client account opening procedures, maintenance records and reporting of such transactions as prescribed by the PMLA and rules notified there under. The Maintenance of Records Rules empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by the regulator for detecting the transactions specified in the Maintenance of Records Rules and for furnishing information thereof, in such form as may be directed by SEBI.

The PMLA inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as provided in Section 12A read with Section 24 of the SEBI Act will be treated as a scheduled offence under schedule B of the PMLA.

POLICIES AND PROCEDURES TO COMBAT MONEY LAUNDERING AND TERRORIT FINANCING

Essential Principles:

These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the

measures taken by it are adequate and appropriate and follow the spirit of the suggested measures and the requirements as laid down in the PMLA and guidelines issued by the Government of India from time to time.

In case there is a variance in Client Due Diligence (CDD)/ Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches/overseas subsidiaries of registered intermediaries are required to adopt the more stringent requirements of the two.

Obligation to establish policies and procedures

Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all registered intermediaries ensure the fulfilment of the aforementioned obligations.

“Group” shall have the same meaning assigned to it in clause (cba) of sub-rule (1) of rule 2 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 as amended from time to time.”

To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The registered intermediaries shall:

- i. issue a statement of policies and procedures and implement, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- ii. ensure that the content of these Directives are understood by all staff members;
- iii. Regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures;
- iv. adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
- v. undertake CDD measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
- vi. have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and Page 7 of 31
- vii. develop staff members’ awareness and vigilance to guard against ML and TF.

Policies and procedures to combat ML and TF shall cover:

- i. Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;
- ii. Client acceptance policy and client due diligence measures, including requirements for proper identification;
- iii. Maintenance of records;
- iv. Compliance with relevant statutory and regulatory requirements;
- v. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- vi. Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected

- money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front-line staff, of their responsibilities in this regard; and,
- vii. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

PART B: DETAILED POLICY

The objective of the AML are as follows:

- To prevent company from being used, intentionally or unintentionally, by criminal elements for money laundering activities.
- Create awareness and provide clarity on KYC standards and AML measures.
- To have a proper Customer Due Diligence (CDD) process before registering clients.
- To monitor and report suspicious transactions.
- To discourage and identify money laundering or terrorist financing activities.
- To monitor / maintain records of all cash transactions of the value of more than Rs.10 lacs.

Client Due Diligence (CDD)

The main aspect of this policy is the client due diligence process which means identifying the client and verifying his/her identity by using reliable, independent source documents, data or information. ESPL obtains sufficient information necessary to establish, to their satisfaction, the identity of each new client, whether regular or occasional. To conduct on going due diligence and scrutiny of the account/ client to ensure that the transaction conducted are consistent with the clients' background/ financial status, its activities and risk profile. ESPL adopted appropriate CDD measures comprising of:

- i. Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement;
- ii. Verify the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, ESPL shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person.;
- iii. Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted

a) **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, ESPL shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- i. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest;

Explanation: Controlling ownership interest means ownership of/ entitlement to:

- a. more than 10% of shares or capital or profits of the juridical person, where the juridical person is a company;
- b. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- c. 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.

ii. In cases where there exists doubt under clause (i) 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;

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

iii. Where no natural person is identified under clauses (i) or (ii) above, the identity of the relevant natural person who holds the position of senior managing official.

b) **For client which is a trust:** Where the client is a trust, ESPL shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the author of the trust, the trustee, the protector, the beneficiaries with 10% 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;

c) **Exemption in case of listed companies:** Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies;

d) **Applicability for foreign investors:** ESPL dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19,2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

e) The management, i.e. the board of ESPL shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits.

iv. Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (iii);

v. Understand the ownership and control structure of the client;

vi. Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the ESPL's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds;

vii. ESPL 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, when there are suspicions of money laundering or financing of the activities relating to terrorism or where Page 11 of 31 there are doubts about the adequacy or veracity of previously obtained client identification data; and

- viii. ESPL shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.
- ix. ESPL shall register the details of a client, in case of client being a non-profit organisation, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the ESPL has ended or the account has been closed, whichever is later
- x. Where ESPL is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, ESPL shall not pursue the CDD process, and shall instead file a STR with FIU-IND

Policy for Acceptance of Clients

As a measure of customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing following safeguards are to be followed while accepting the clients:

- i. ESPL shall NOT 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;
- ii. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher; Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile;
- iii. ESPL shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:
 - a) Non - resident clients;
 - b) High net-worth clients;
 - c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
 - d) Companies having close family shareholdings or beneficial ownership;
 - e) *Politically Exposed Persons (PEP)*. PEP are individuals who are or have been entrusted with prominent public functions by a foreign country including the heads of States or Governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent paragraph 14 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs;
 - f) *Clients in high risk countries*. While dealing with clients from or situate in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against money laundering or terror financing is suspect, ESPL apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatfgafi.org) from time to time, shall also independently access and consider other publicly available information along with any other information which they may have access to. However, this shall not preclude ESPL from entering into legitimate transactions with clients from or situate in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas;

- g) *Non face to face clients.* Non face to face clients means clients who open accounts without visiting the branch/offices of the ESPL or meeting the officials of the ESPL. Video based customer identification process is treated as face-to-face onboarding of clients;
- h) Clients with dubious reputation as per public information available etc;

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

- iv. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.
- v. ESPL shall not open any account where it is unable to apply appropriate CDD measures. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. ESPL shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. ESPL shall be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, ESPL shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
- vi. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with ESPL, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
- vii. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
- viii. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.

Client Identification Procedure (CIP)

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information while establishing a relationship. ESPL will obtain sufficient information such as Voter ID, PAN, Passport, Aadhaar etc. necessary to establish, to our satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship.

➤ For New Clients:

Objective: To have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious / benami / anonymous in nature.

Documents which can be relied upon:

- PAN CARD: PAN card is mandatory and is most reliable document as only one card is issued to an entity and we can independently check its genuineness through NSDL website.
- IDENTITY Proof: PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should

take other identity proof in form of Voter's Identity card, Aadhaar Card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card.

- ADDRESS Proof: For valid address proof we can rely on Voter's Identity Card, Passport, Aadhaar Card, Driving Licence, Ration card and latest Bank Statement, Electricity/ telephone bill in the name of the client.
- Documents to be obtained as part of customer identification procedure for new clients:

A. In case of individuals, one copy of the following documents has to be obtained:

- As PAN is mandatory, verify its genuineness with NSDL website and cross verify the PAN card copy with the original. We put "PAN verified and Verified with Original" stamp as proof of verification.
- Other proofs for identity are Voter's Identity card, Aadhaar Card, Passport, Driving License, Ration Card or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities.
- Address proof in the form of Aadhaar Card, Voter's Identity Card, Passport, Driving Licence, Ration card and latest Bank Statement, Electricity/telephone bill (not older than 2 months) and Banker Verification (Scheduled Commercial Bank only) in the name of the client or any other document prescribed by the regulatory authorities. Further we take copy of latest bank passbook as address proof in case of HUF account.
- Proof of Identity and Address of the Introducer

B. In case of corporates, one certified copy of the following documents must be obtained:

- PAN is mandatory
- Copy of the Registration/Incorporation Certificate
- Copy of the Memorandum & Articles of the Association
- List of Directors
- Shareholding pattern
- Copy of the PAN card and the Director Identification No. (DIN)
- Proof of address and identity if all the directors.
- Copy of the latest audited Annual Statements of the corporate client
- Latest Net worth Certificate
- Latest Income Tax return filed.
- Board Resolution for appointment of the Authorized Person who will operate the account.
- Proof of address and identity of Authorized Person
- Copy of the Bank Statement
- Rent Agreement
- Electricity/telephone bill (not older than 2 months)
- Banker Verification (Scheduled Commercial Bank only)
- Proof of Identity and Address of the Introducer

C. In case of partnership firm one certified copy of the following must be obtained:

- PAN is mandatory
- Registration certificate
- List of Partners & copy of Partnership Deed
- PAN card & Address proof of partners
- Authorization letter for the person authorized to open and operate the account
- Proof of identity and address of the authorized person.
- Annual statement/returns of the partnership firm

- Copy of the Bank Statement
- Rent Agreement
- Electricity/Telephone (not more than 2 months)
- Banker Verification (Scheduled Commercial Bank only)
- Proof of Identity and Address of the Introducer

D. In case of a Trust, one certified copy of the following must be obtained:

- PAN is mandatory
- Registration certificate
- List of Trustees and copy of Trust Deed
- PAN card & address proof of Trustees & authorised signatories of Trust.
- Authorization letter for the entity authorized to act on their behalf
- Copy of the Bank Statement
- Rent Agreement
- Electricity/Telephone (not more than 2 months)
- Banker Verification (Scheduled Commercial Bank only)
- Proof of Identity and Address of the Introducer

E. In case of unincorporated association or a body of individuals, one certified copy of the following must be obtained:

- PAN is mandatory
- Resolution of the managing body of such association or body of individuals
- POA in favour of person authorized to transact
- PAN and address proof of the person(s) authorized to transact
- Any document required to establish the legal existence of such an association or body of individuals.
- Copy of the Bank Statement
- Rent Agreement
- Electricity/Telephone (not more than 2 months)
- Banker Verification (Scheduled Commercial Bank only)

F. In case of an NRI account - Repatriable/non-repatriable, the following documents are required:

- Copy of the PIS permission issued by the bank
- Copy of the passport
- Copy of PAN card
- Proof of overseas address and Indian address
- Copy of the bank statement
- Copy of the Demat statement
- If the account is handled through a mandate holder, copy of the valid POA/mandate
- Proof of the identity and address of the authorised person along with a copy of the photograph

Due diligence of the client shall not be outsourced as per policy of ESPL and complete due diligence will be carried out in house and record thereof will be kept as well as whenever it is revived time and again and undertaking enhance due diligence measures shall also be carried out.

General Guidelines:

- In-Person-Verification of client is to be carried out as required by rules and regulations. Details of the verification are mentioned on the account opening form.

- All PAN cards received will be verified from Income Tax/ NSDL website before the account is opened
- Always check original documents before accepting the copies
- Obtain the latest photograph of account holder/ authorized person(s)
- Check for latest IT return of the client/ Net worth Certificate for ascertaining the financial status of the client to know the client suitability of the product being sold to the client
- Review the above details on-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.
- Scrutinize the forms submitted by the client thoroughly and cross check the details with various documents obtained like source of income. If required, ask for any additional details like salary slips, etc. to satisfy yourself whenever there is a doubt.
- Keep watch on the welcome kits returned with reason - undelivered. Business Head should be alerted, client be contacted immediately on telephone and the trading, if suspected, should be suspended
- If Employee introduces the client, exact relation of the client with such employee should be documented.
- In case of failure by prospective client to provide satisfactory evidence of identity, we shall report such failure to the higher authority.
- We shall verify each original document prior to acceptance of a copy.
- The client shall be identified by using reliable sources including documents / information. We shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
- There shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures. This shall be strictly implemented by all the departments and offices.
- According to the act all records are to be Maintained and preserved for a minimum period of 5 years.

➤ **For All Existing Clients:**

On an on-going basis, we shall ensure that the details given in the KYC, by the client, matches with the current details of the client. If required, we can seek additional documents / information from the client to verify the financial/general status of the client.

In cases where:

- Cheque gets bounce on regular basis,
- Client who is mostly trades in illiquid scrips and fall under debarred entity list.
- There is any material negative change in the financial details of the client from what is given in the KYC.
- If the client is not contactable/traceable or contracts notes/ communications sent are received back undelivered.
- In case the client is prohibited by any regulatory authority.
- The client refuses to provide additional information/document asked for.
- There is a material change in the mandate holder profile/details.

Branches or any other employee should immediately bring the same to the notice of the Business Head. The Business Head will, in turn, discuss the same with the Principal Officer to decide on the necessary course of action, including reporting to FIU, New Delhi.

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

ESPL may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. In terms of Rule 9(2) of PML Rules:

- i. ESPL shall immediately obtain necessary information of such client due diligence carried out by the third party;
- ii. ESPL shall take adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- iii. ESPL shall be satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- iv. The third party is not based in a country or jurisdiction assessed as high risk; The ESPL shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable

Risk Management

A. Risk-based Approach

ESPL has to put in place parameters to categories the clients into high, medium and low risk clients. Given below are the parameters for risk categorization of clients:

▪ High Risk Clients:

ESPL may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk clients, especially those for whom the sources of funds are not clear. The examples of clients requiring higher due diligence may include:

- Non-Resident Indians.
- High Net worth Individuals
- Trust, Charities, NGOs and organizations receiving donations.
- Politically Exposed Persons of foreign origin.
- Firms with 'Sleeping Partners'
- Current and former head of state, high profile politicians and connected persons (immediate family, close advisors and companies in which such individuals have interest or significant influence.)
- Companies offering foreign exchange offerings.
- Clients in high-risk countries.
- Non face to face customers.
- Clients with dubious reputation as per public information available etc having Criminal backgrounds.
- Persons in special categories apart from mentioned above.

We do follow additional due diligence with respect to high and medium risk clients as compare to low-risk clients.

- Approval of management required at the time of opening of such high risk/ medium risk account
- Trading pattern is observed ongoing basis.
- Extra due diligences are carried out while accepting fund and securities from such high risk/ medium risk account.
- Annual financial updation letters are sent to the clients along with change in KYC information
- In case if the client falls under SEBI debarred list after registration necessary action taken as per our PMLA policy.
- We check the trading pattern of their income according to their turnover.

▪ **Medium Risk Clients:**

Clients that are likely to pose a higher-than-average risk to the company may be categorized as medium or high risk depending on client's background, nature and location of activity, country of origin, sources of funds and his client profile etc; such as:

- Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
- Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
- Clients who deal in intraday speculative transactions and whose turnover is not in line with financials declared.
- Clients having close family shareholdings or beneficial ownership.
- Clients whose cheques have been dishonored 3 times or more in the last 30 days.

▪ **Low Risk Clients:**

Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile and their financials declared be categorized as low risk. Also who makes payment/delivery in time and follow the norms established by regulators and company. The illustrative examples of low risk clients could be salaried employees whose salary structures are well defined, people belonging to lower economic level of the society whose accounts show small balances and low turnover, Government Departments and Government owned companies, regulators and statutory bodies etc. In such cases, only the basic requirements of verifying the identity and location of the client shall be met. Additionally, the clients who are not covered in the high & medium risk profile are treated as Low risk Profile client.

B. Risk Assessment:

ESPL shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc.

The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.

ESPL shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and existing products. ESPL shall ensure:

- a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
- b. Adoption of a risk based approach to manage and mitigate the risks”.

The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions.

Monitoring of Transactions:

- ESPL has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities and can conduct Regular monitoring of transactions to ensure effectiveness of the AML procedures
- ESPL shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents shall be made available to auditors and also to SEBI/stock exchanges/FIU-IND/ other relevant Authorities, during audit, inspection or as and when required. These records are required to be maintained and preserved for a period of five years from the date of transaction between the client and ESPL.
- ESPL shall apply client due diligence measures also to existing clients on the basis of materiality and risk, and conduct due diligence on such existing relationships appropriately. The extent of monitoring shall be aligned with the risk category of the client.
- ESPL shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND and to the senior management of ESPL. Suspicious transactions shall also be regularly reported to the higher authorities of ESPL.
- Further, the compliance cell of ESPL shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

Suspicious Transaction Monitoring and Reporting:

In order to monitor and analyze suspicious transaction we should understand what suspicious transaction is: Suspicious transaction means transactions, whether or not made in cash, which a person acting in good faith –

- Gives rise to reasonable ground of suspicion that it may involve the proceeds of crime or
- Appears to be made in circumstance of unusual or unjustified complex, or
- Appears to have no economic rationale or bone fide purpose

Reason for suspicious:

- **Identity of client**
 1. False identification documents, documents not properly verified
 2. False address proof

3. Documents received back undelivered from the client's address
4. In person verification not properly done
5. Doubt over the real beneficiary of the account
6. A/c opened with names very close to other established business entity.

- **Client having suspicious or criminal back ground.**

- **Multiple Account**

1. Large number of accounts having a common parameter such as common partners/ directors/ promoters/ address /email/ telephone no/ introducer/ or authorized signatory.
2. Unexplained transfer between such multiple accounts.

- **Activity in Account**

1. Unusual activity compared to past transaction.
2. Use of different accounts by client alternately.
3. Sudden activity in dormant accounts.
4. Actively inconsistent with what would be expected from the declared business.
5. Account used for circular trading.

- **Nature of Transaction**

1. Unusual or unjustified complexity.
2. No economic rationale or bonafide purpose.
3. Sources of funds are doubtful.
4. Third party involvement is sensed.
5. Appears to be a case of insider trading.
6. Purchase in own account transferred to third party through off market transaction through DP.
7. Transaction reflects likely market manipulation.
8. Suspicious off market transaction.

- **Value of Transaction**

1. In consistent with the client's apparent financial standing.
2. Value of transaction just below the threshold amount in an apparent to avoid reporting.
3. Large sum of money being transferred from overseas payments.
4. Block deals which is not at market price or prices appear to be artificially .inflated/ deflated

- **Updation of documents of clients**

1. Financial documents of client trading in derivative segment should be updated on a yearly basis
2. Financial documents of Non individual clients in cash segment should be updated on a yearly basis
3. For Demat and individual clients trading in cash segment, client's financial data should be updated in line with value of transactions and income range mentioned by the client as and when required

- **Alerts generated by NSDL based on transactions in Depository Accounts**

1. Debit and Credit transactions due to Off-market or Inter-depository transfers, above a threshold quantity, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
2. Details of debit and credit transactions due to demat, remat and pledge above a threshold quantity / value , in an ISIN, in a single transaction or series of transactions executed during the fortnight.

3. Details of debit and credit transactions above a threshold quantity/value whichever is smaller, in an ISIN, which exceed a threshold multiple of the average size of the transaction calculated for the previous months' transactions.
4. Details of Off-market transactions (within NSDL or Inter-depository) where there are more than a threshold number of transactions in an account, for the past fortnight.
5. Any debit transaction in a dormant account for exceeding a threshold quantity/value whichever is smaller, will be reported as an alert. An account having no 'Debit' Transaction' in the last 'n' months will be considered as 'Dormant' account for this purpose.

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

Any suspicious transaction shall be immediately notified to the Designated/Principal Officer. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/ suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Designated/ Principal Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

In some cases where transactions are abandoned/aborted by customer on being asked to give some details or to provide relevant documents, in those cases such reports to be reported as STR irrespective of the amount of transactions.

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 client identification data, ESPL 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.

Record Management:

A. Information to be maintained

ESPL will maintain the following information in respect of transactions referred to in Rule 3 of PML Rules:

- i. the nature of the transactions;
- ii. the amount of the transaction and the currency in which it is denominated;
- iii. the date on which the transaction was conducted; and
- iv. the parties to the transaction.

ESPL shall take such steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and intermediary. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

The following document retention terms shall be observed:

- a) All necessary records on transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.
- b) ESPL shall maintain and preserve the records of documents evidencing the identity of its clients and beneficial owners (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

B. Record Keeping

ESPL must confirm the provisions of the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars in relation to record keeping.

ESPL shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour

ESPL shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail in case the competent investigating authorities need to trace through the audit trail for reconstructing a financial profile of the suspicious account in case of any suspected drug related or other laundered money or terrorist property.

- i. the beneficial owner of the account;
- ii. the volume of the funds flowing through the account; and
- iii. for selected transactions:
 - a. the origin of the funds
 - b. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - c. the identity of the person undertaking the transaction;
 - d. the destination of the funds;
 - e. the form of instruction and authority.

More specifically, ESPL shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:

- i. all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
- ii. all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency; It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.
- iii. 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;
- iv. all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non-monetary account such as demat account, security account maintained by ESPL.

C. Retention of Records

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

ESPL required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed, whichever is later.

Records of information reported to the director, Financial Intelligence Unit – INDIA (FIU – IND):

ESPL shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the ESPL.

Procedure for Freezing of funds, financial assets or economic resources or related services:

ESPL shall ensure that in terms of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) and amendments thereto, they do not have any accounts in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC).

In order to ensure expeditious and effective implementation of the provisions of Section 51A of UAPA, Government of India has outlined a procedure through an order dated February 02, 2021 ([Annexure 1](#)) for strict compliance. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021 ([Annexure 2](#)). A corrigendum dated March 15, 2023 has also been issued in this regard ([Annexure 3](#)). The list of Nodal Officers for UAPA is available on the website of MHA.

List of Designated Individuals/ Entities

The Ministry of Home Affairs, in pursuance of Section 35(1) of UAPA 1967, declares the list of individuals/entities, from time to time, who are designated as 'Terrorists'. ESPL take note of such lists of designated individuals/terrorists, as and when communicated by SEBI.

All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <https://press.un.org/en/content/press-release>. The details of the lists are as under:

- i. The “ISIL (Da’esh) & Al-Qaida Sanctions List”, which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases>.
- ii. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea <https://www.un.org/securitycouncil/sanctions/1718/press-releases>.

ESPL will ensure that accounts are not opened in the name of anyone whose name appears in said list. ESPL shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list.

ESPL shall maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether the designated individuals/entities are holding any funds, financial assets or economic resources or related services held in the form of securities with them.

ESPL shall leverage latest technological innovations and tools for effective implementation of name screening to meet the sanctions requirements.

ESPL shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions carried through or attempted in the accounts covered under the list of designated individuals/entities under Section 35 (1) and 51A of UAPA.

Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to the Central [designated] Nodal Officer for the UAPA, at Fax No.011-23092551 and also conveyed over telephone No. 011-23092548. The particulars apart from being sent by post shall necessarily be conveyed on email id: jsctcr-mha@gov.in.

ESPL shall also send a copy of the communication mentioned above to the UAPA Nodal Officer of the State/UT where the account is held and to SEBI and FIU-IND, without delay. The communication shall be sent to SEBI through post and through email (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C7, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. The consolidated list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.

Jurisdictions that do not or insufficiently apply the FATF Recommendations

FATF Secretariat after conclusion of each of its plenary, releases public statements and places jurisdictions under increased monitoring to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing risks. In this regard, FATF Statements circulated by SEBI from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered by ESPL.

ESPL shall take into account the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements. However, it shall be noted that the regulated entities are not precluded from

having legitimate trade and business transactions with the countries and jurisdictions mentioned in the FATF statements.

Reporting to Financial Intelligence Unit-India

In terms of the PML Rules, ESPL will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit - India
6th Floor, Tower-2, Jeevan Bharati Building,
Connaught Place, New Delhi-110001, INDIA

Telephone : 91-11-23314429, 23314459

91-11-23319793(Helpdesk)

Email:helpdesk@fiuindia.gov.in

(For FINnet and general queries)

ctrcell@fiuindia.gov.in

(For Reporting Entity / Principal Officer registration related queries)

complaints@fiuindia.gov.in

Website: <http://fiuindia.gov.in>

ESPL shall carefully go through all the reporting requirements and formats that are available on the website of FIU – IND under the Section Obligation of Reporting Entity – Furnishing Information - Reporting Format ([https://fiuindia.gov.in/files/downloads/ Filing_Information.html](https://fiuindia.gov.in/files/downloads/Filing_Information.html)). These documents contain detailed directives on the compilation and manner/procedure of submission of the reports to FIU-IND.

The related hardware and technical requirement for preparing reports, the related data files and data structures thereof are also detailed in these documents. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, ESPL shall adhere to the following:

- i. The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
- ii. The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.
- iii. The Non Profit Organization Transaction Reports (NTRs) for each shall be submitted to FIU-IND by 15th of the succeeding month.
- iv. The Principal Officer will be responsible for timely submission of CTR, STR and NTR to FIU-IND;
- v. Utmost confidentiality shall be maintained in filing of CTR, STR and NTR to FIU-IND.
- vi. No nil reporting needs to be made to FIU-IND in case there are no cash/ suspicious/non-profit organization transactions to be reported.
- vii. Non-profit organization” means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), 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 the section 8 of the Companies Act, 2013 (18 of 2013);

ESPL shall not put any restrictions on operations in the accounts where an STR has been made. ESPL and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/ or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.

It is clarified that ESPL, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

It is further clarified that "proceeds of crime" include property not only derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relating to the scheduled offence.

Hiring and Training of Employees and Investor Education

Hiring of Employees:

There should be adequate screening procedures in place to ensure high standards when hiring employees. Key positions within our organization structure should be identified with regards to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

Training of Employees:

We will develop ongoing employee training and Investor Education under the leadership of the Principal Officer. It will be based on our Elbee Securities Pvt Ltd size, its customer base, and its resources.

Our training will include, at a minimum: how to identify Client under scrutiny and signs of money laundering that arise during the course of the employees’ duties; what to do once the risk is identified; what employees' roles are in the Elbee Securities Pvt Ltd compliance efforts and how to perform them; Elbee Securities Pvt Ltd record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes

Investor Education:

Implementation of Anti Money Laundering (AML) /Combating Financial of Terrorism (CFT) measures requires certain information from investors which may be of personal nature. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. In such cases ESPL is required to educate the Clients as and when required for, with the objectives of the AML / CFT programme adopted by ESPL.