

MERITS GROUP

POLICY FOR PREVENTION OF MONEY LAUNDERING UNDER PML (AMENDMENT) ACT, 2002

1. PURPOSE

1.1 This policy is being formulated as per the provisions of Rule 9 (14) of the PML Rules, 2005 and with a view to

- (a) preventing money laundering and
- (b) combating financing of terrorism in the commodity derivatives markets (CDM) in India.

In order to achieve the aforesaid dual purposes, this policy requires the exchange's Members to comply with the provisions of the Prevention of Money Laundering Act, 2002, and the Rules made there under.

2. INTRODUCTION

This policy also contains guidance on and directives relating to implementation of the provisions of the PML Act:

- (a) to prevent money laundering in the CAPITAL MARKET in India, and
- (b) to combat financing terrorism within the country and outside so that the objects of the PML Act are achieved.

3. BACKGROUND

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005 and it provides for Anti-money Laundering and Anti-terrorist Financing measures to be taken in India and the rules framed there under provides guidance on the practical implementation of the provisions laid down in the Act. The Director appointed by Financial Intelligence Unit-INDIA (FIU-IND) has been conferred with exclusive and concurrent powers under relevant sections of the Act to implement its provisions. The Act imposes an obligation on banking companies, financial institutions and intermediaries associated with the securities market and commodities market and registered with the Securities and Exchange Board of India (SEBI) and Forward Market Commission (FMC) respectively. The stock brokers and or commodity brokers fall under the category of intermediaries, and hence the provisions of PMLA are also applicable to all the stock and commodity brokers. Establishment of Anti-money Laundering programs by Market Intermediaries are one of the central recommendations of the Financial Action Task Force (FATF). SEBI/FMC has issued necessary directives from time to time vide its circulars covering issues related to Know Your client (KYC) norms, Anti Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). This policy document is based on the SEBI and FMC master circular on PMLA which consolidates requirements/obligations to be fulfilled by all the registered intermediaries. This policy will be subject to changes in order to incorporate further directives that SEBI/FMC may give vide its circulars on PMLA, from time to time.

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4. MAINTENANCE OF RECORDS OF TRANSACTIONS

4.1 As required by Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 (for short “the PML Rules”) as amended, the Company shall maintain the record of all transactions including, the record of—

- A. all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
- B. 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;
- C. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- D. all suspicious transactions, whether or not made in cash, and by way of
 - I. deposits and credits,
 - II. 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. Travellers 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;
 - III. credits or debits into or from any non-monetary accounts such as d-mat account, security account in any currency maintained by the banking company, financial institution and intermediary, as the case may be;
 - IV. 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:-
 - (a) Payment orders, or
 - (b) Cashiers cheques, or
 - (c) Demand drafts, or
 - (d) Telegraphic or wire transfers or electronic remittances or transfers, or
 - (e) Internet transfers, or
 - (f) Automated Clearing House remittances, or
 - (g) Lock box driven transfers or remittances, or
 - (h) Remittances for credit or loading to electronic cards, or
 - (i) Any other mode of money transfer by whatsoever name it is called;
- V. 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,

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preferential shares, debentures, securitized participation, interbank 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;

VI. 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.

E. All cross border wire transfers of the value of more than five lakh rupees or its equivalent in foreign currency where either the origin or destination of fund is in India;

F. All purchase and sale by any person of immovable property valued at fifty lakh rupees or more that is registered by the reporting entity, as the case may be.”.

5. INFORMATION TO BE MAINTAINED AND PRESERVED

As required by Rule 4 of the PML Rules, the Company shall maintain and preserve the following information in respect of transactions referred to in para 4.1 above.

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

6. DESIGNATION OF “DESIGNATED DIRECTOR” AND “PRINCIPAL OFFICER”:

6.1 As laid down in Rule 2(1) (ba) and (f) read with Rule 7 of the PML Rules, the Company have appointed MR. GAGANDEEP SINGH BANGA as “Designated Director” and MR. VARUN KALRA as “Principal Officer”, of MERITS CAPITAL MARKET SERVICES PRIVATE LIMITED. MR. DILMEET SINGH BANGA as “Designated Director” and “Principal Officer”, of MERITS COMTRADE PRIVATE LIMITED and have communicate the same to the Director, Financial Intelligence Unit (FIU), Department of Revenue, Ministry of Finance, India the name, designation and address of the said Designated Director and the Principal Officer.

6.2 The Principal Officer shall furnish the information referred to in sub-paras (A), (B), (C), (D), (E) and (F) of para 4.1 above to the Director, FIU, on the basis of information available with the intermediary. A copy of such information shall be retained by the Principal Officer for the purposes of official record.

6.3 Every intermediary shall evolve an internal mechanism having regard to any guidelines issued by the Commission, for detecting the transactions referred to in sub-paras (A),(B), (C),(D), (E) and (F) of para 4.1 and for furnishing information about such transactions in such form as may be directed by the Commission.

6.4 It shall be the duty of the Designated Director, officers and employees to observe the procedure

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and the manner of furnishing information as specified by the Commission.

6.5 The Principal Officer shall be located at the head/corporate office and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the PML Act and the PML Rules. The Principal Officer will maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

7. FURNISHING OF INFORMATION TO THE DIRECTOR

As laid down in Rule 8 of the PML Rule, the Principal Officer shall furnish the information in respect of transactions referred to in sub-paras (A), (B), (C) and (E) of para 4.1 every month to the Director, FIU-IND, New Delhi by the 15th day of the succeeding month.

7.1 The Principal Officer shall furnish the information promptly in writing or by fax or by electronic mail to the Director, FIU-IND, New Delhi in respect of transactions referred to in sub-para (D) of para 4.1s not later than seven working days on being satisfied that the transaction is suspicious.

7.2 The Principal Officer shall furnish, the information in respect of transactions referred to in sub-para (F) of para 4.1, every quarter to the Director, FIU-IND, New Delhi by the 15th day of the month succeeding the quarter.

7.3 For the purpose of the aforesaid Rule, delay of each day in not reporting a transaction or delay of each day in rectifying a mis-reported transaction beyond the time limit as specified in the rule shall constitute a separate violation.

8. RECORD KEEPING

8.1 The Company shall ensure compliance with the record keeping requirements contained in the FCRA and Rules made there-under and orders/directions/circulars issued by the Commission, PML Act, PML Rules as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

8.2 The Company 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.

8.3 In case there is 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, the Company shall retain the following information for the accounts of their clients 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:
 - i. The origin of the funds;
 - ii. The form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.

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- iii. The identity of the person undertaking the transaction;
- iv. The destination of the funds;
- v. The form of instruction and authority.

8.4 The Company shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the FCR Act and Rules framed there-under and orders/directions/circulars issued by the Commission, PML Act, PML Rules other relevant legislations, Rules and Regulations or Exchange byelaws or circulars.

8.5 The Company have 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;
- (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 document has taken place facilitating the transactions;
- (iv) All suspicious transactions whether or not made in cash and by way of as mentioned in the said Rules.

9. POLICIES AND PROCEDURES TO COMBAT MONEY LAUNDERING (ML) AND TERRORIST FINANCING (TF)

9.1 Essential Principles

9.1.1 These Directives have taken into account the requirements of the PML Act as applicable to the in the CDM in India. The Company 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 measures suggested in the Circular and the requirements as laid down in the PML Act.

9.2 Obligation to establish policies and procedures

9.2.1 The Intermediaries shall:

- a. Issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- b. Ensure that the contents of this policy are understood by all staff members;
- c. 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;
- d. Adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;

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- e. Undertake client due diligence (“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;
- f. Have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities (FIU, Ministry of Finance); and
- g. Develop staff members’ awareness and vigilance to guard against ML and TF.

9.2.2 Policies and procedures to combat ML 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;
 - a. Compliance with relevant statutory and regulatory requirements;
 - b. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
 - c. 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, and their responsibilities in this regard. 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.

10. WRITTEN ANTI MONEY LAUNDERING PROCEDURES

10.1 The Company shall formulate written procedures to implement the antimoney laundering provisions as envisaged under the PML Act. Such procedures shall include, inter alia, the following three specific parameters which are related to the overall ‘Client Due Diligence Process’:

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

a. Policy for acceptance of clients

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

- No account is opened in a fictitious / benami name or on an anonymous basis. To ensure this we must insist the client to fill up all the necessary details in the KYC form in our presence and obtain all the necessary documentary evidence in support of the information filled in KYC.

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- We must verify all the documents submitted in support of information filled in the KYC form with the originals and in-person verification should be done by our own staff. Moreover new client should either be introduced by an existing customer or by the senior official of the company.
- In case we have any doubt that in-complete / fictitious information is submitted by the client, we must ask for such additional information so as to satisfy ourselves about the genuineness of the clients.
- We should not continue to do business with such a person and file a suspicious activity report. We should also evaluate whether there is suspicious trading in the account and whether there is a need to freeze or close the account
- We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, overseas in high risk countries, non face to face clients, clients with dubious background. Current/Former senior high profile politician, Companies offering foreign exchange, etc.) or clients from high-risk countries or clients belonging to countries where corruption/fraud level is high. Scrutinize minutely the records/documents pertaining to clients belonging to aforesaid category.
- Do not compromise on submission of mandatory information / documents. Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. Do not open the accounts where the clients refuses to provide information / documents and we should have sufficient to reject the client towards this reluctance.
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b. Client Identification Procedure during Operation

This involves maintaining continuous familiarity and follow up with the client account. This should be done keeping in view the information/document furnished by the client at the time of account opening to be able to detect any inconsistency with the information provided. The following are some steps in this direction.

- a) Order is placed by the client or his authorized/natural representative and in case of any doubt personal identification like date of birth, phone no. etc. is asked for.
- b) Orders of any unusual nature to be brought to the notice of higher authorities before execution.
- c) While confirming the trade after execution the identity of the client is to be ensured and checked.
- d) Contract note should be dispatched at the address provided or handed over to the client or his authorized/natural representative only.
- e) Pay-In and Pay-Out should be in the respective client accounts only and in no case payments/securities are to be received or delivered otherwise
- f) No cash payments to the clients are allowed. Cash receipts are also to be avoided. However in case of minor amounts towards cost of documents, depository charges and in exceptional cases of

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sticky/overdue accounts cash may be received at head office only with the approval of higher authorities.

Factors of risk perception of the client:-

Particulars	Risk Perception
- Face to Face clients within city	Low Risk
- Face to Face clients of other than city	Low Risk
- Client Introduced by existing Face to Face Clients	Low Risk
- Client Introduced by other Existing Clients	Medium Risk
- Direct Clients of city	Medium Risk
- Direct Clients of other than city	High Risk
- Non resident Clients	High Risk

Nature of Business Activity, Trading Turnover etc

-Retail clients (average daily turnover < Rs 10 Lakhs or net settlement obligation < Rs 2 Lakhs)	Low risk
- Retail clients (average daily turnover < Rs 25 Lakhs or net settlement obligation < Rs 5 Lakhs)	Medium Risk
- HNI Clients (average daily turnover > Rs 25 Lakhs or net settlement obligation > Rs 5 Lakhs)	High Risk

Manner of Making Payment Manner of Making Payment.

- Regular payment through A/c payee cheque from the Bank A/c already mapped with us	Low Risk
- Payment through A/c payee cheque from the Bank A/c other than one already mapped with us	Medium Risk
- Payment through Banker`s Cheque / Demand Draft / Cash.	High Risk

c. Suspicious Transaction identification and reporting

Factors of risk perception of the client:-

Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith gives rise to a reasonable ground of suspicious that it may involve the proceeds of crime; or appears to be made in circumstance of unusual or unjustified complexity; or appear to have no economic rationale or bona fide purpose.

A) Reasons for Suspicious:

Identity of client

- Non-face to face client;
- False identification documents;
- Clients in high-risk jurisdiction;
- Accounts opened with names very close to other established business entities;
- Identification documents which could not be verified within reasonable time;

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- Receipt back of welcome kit undelivered at the address given by the client;
- Doubt over the real beneficiary of the account;
- Suspicious background or links with criminals.

Multiple Accounts

- Unexplained transfers between such multiple accounts Activity in Accounts;
- Large number of accounts having a common parameters as common partners / directors / promoters / address / email address / telephone numbers introducer or authorized signatory;
- Use others different accounts by clients alternatively;
- Activity inconsistent with what be expected from declared business;
- Unusual activity compared to past transactions;
- Sudden activity in dormant accounts.

Nature of Transactions

- Source of funds is doubtful;
- Unusual or unjustified complexity;
- Appears to be case of insider trading;
- No economic rationale or bonafied purpose;
- Transactions reflect likely market manipulation;
- Suspicious off market transaction;
- Purchases made on own account transferred to a third party through an off market transaction through DP account.

Value of Transaction

- Value just under the reporting threshold amount in an apparent attempt to avoid reporting;
- Inconsistent with the clients apparent financial standing;
- Inconsistency in the payment pattern by client;
- Block deal which is not at market price or prices appear to be artificially inflated/deflated;
- Large sums being transferred from overseas for making payments.

Identifying and Reporting suspicious transaction

The Principle Officer for any suspicious transaction will transaction filtered out of the following filters in detail. As the Business dynamics are very varied and complex, defining transaction types for reporting will not be undertaken at this juncture. Having said that, the Principal Officer will review all the transactions thrown out by the filters and decides on a case-to case basis to report to FIU with in stipulated time with complete details

- These filters will be reviewed regularly for any updations and modifications to make the system more robust and effective.

- Payment for payout to all the clients will be only through cheque. No cash payments to be entertained under any circumstances.
- All third party cheques to the credit of clients accounts irrespective of the amount.
- All payment made either by way of Demand Draft/Cheque/Money Transfer/Funds Transfer in foreign currencies irrespective of the amount. In case of DD it should be accompanied by the letter of bank in case of some unavoidable situation.

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- To discourage the manipulation relating to the strength, we have started the provision of updating the financial statements of the clients annually and this is the ongoing procedure.

What to Report

- The amount of the transaction and the currency in which it was denominated;
- The date on which the transaction was conducted;
- The nature of the transactions;
- The parties to the transaction;
- The reason of suspicion.

13. LIST OF DESIGNATED INDIVIDUALS/ENTITIES

13.1 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 <http://www.un.org/sc/committees/1267/consolist.shtml>. We ensure that accounts are not opened in the name of anyone whose name appears in said list and that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI, FMC and FIU-IND.

14. HIRING AND TRAINING OF EMPLOYEES

MERITS GROUP shall ensure adequate screening procedures at the time of hiring its staff. It shall also ensure that the employees dealing with PMLA requirements are suitable and competent to perform their duties. MERITS GROUP will conduct PMLA awareness program for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA. MERITS GROUP will ensure that the new staff recruited by them is also given initial PMLA awareness training.

The Principal Officer will also impart periodical refresher training to the staff to keep them updated on new developments and to communicate any changes in the policies, procedures etc.

15. INVESTOR EDUCATION

15.1 Implementation of AML/CFT measures requires the Company to demand certain information from investors, which may be of personal nature or has hitherto never been called for. 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. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. We shall prepare specific literature/ pamphlets etc. so as to educate the clients on the objectives of the AML/CFT programme to comply with the aforesaid requirements.

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16. REVIEW OF POLICY

The aforesaid AML policy shall be reviewed periodically with regard to testing its adequacy to meet the compliance requirements of PMLA 2002. The Principal Officer shall be the authority to give directions to undertake additions, changes, modifications etc. as directed by SEBI/ FMC/FIU-IND.