

ASE Capital Markets Ltd.

Anti Money Laundering Policy

Background:

The Prevention of Money Laundering Act, 2002 was notified on July 1, 2005. Subsequent to this, the Securities and Exchange Board of India (SEBI) has on 18th January 2006 (Circular Ref. No. ISD/CIR/RR/AML/1/06) required market intermediaries to adopt a policy framework with respect to anti money laundering measures to be followed by the intermediaries. SEBI vide a master Circular Ref. No. ISD/AML/CIR-1/2008 dated 19th December 2008 directed all registered intermediaries to ensure compliance with the requirements of the Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of the Security Market Intermediaries under Prevention of Money Laundering Act 2002 and rules framed there-under. ACML is inter alia, a stock broker, a depository participant (DP), a registered intermediary with SEBI and needs to adhere to the same.

ACML has formulated a policy to comply with the SEBI circular (A copy of which is enclosed as Annexure I). As per the existing policy, ACML has to report to FIU-IND, all market and Off market Transactions, inter depository Transactions and Pledge Invocation cases where total value of a single transaction and or series of transaction in single scrip in a month is greater than Rs. 10 lacs. This policy was framed in Dec. 2006. In the present market scenario, it is not practically possible to report every transaction of value Rs.10 lacs or above. Hence it is felt that we will revise our Anti Money Laundering Policy. Since the business of the ACML has increased, it is necessary to review the same.

Every transaction in the capital market has two parts i.e. Securities and Funds. ACML deals with the clients only through sub-brokers and Depository Participant (DP) franchises. Therefore, it is difficult for ACML to know about the actual Sources of funds provided to ACML, and the Application of the funds issued by ACML, in the funds payout on selling of the securities. Monitoring the exact income and net-worth of clients and comparing their transaction value with their income and net-worth are also difficult. Therefore a policy of reporting suspicious Transactions is required to be framed and implemented.

Objectives:

- Ensure that ACML shall meet legal and regulatory obligations, and that its staff is trained properly to adhere and comply with prevalent laid down requirements;

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- Establish the process of internal control over prevention and detection of accounts and activities falling under the category of suspicious nature by identifying, monitoring and reporting to law enforcement authorities;
- Update all subsequent notifications issued by various regulatory authority/exchanges having relevance to the business of intermediary carried on by ACML.
- Ensure that the policy/procedures framed are implemented / applied effectively.

Definition of Money Laundering:

Section 3 of PMLA has defined the “offence of money laundering” as under:

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

Obligations under Prevention of Money Laundering (PML) Act 2002:

- (I) Anti-Money Laundering Policy should be approved in writing by Senior Management reviewed at frequent intervals.
- (II) Implementation of the Anti-money Laundering Policy-

PMLA places certain obligations on every banking company, financial institution and intermediary, which include implementation of the Anti-Money Laundering Policy

- (i) To maintain a record of prescribed transactions
- (ii) To furnish information of prescribed transactions to the specified authority
- (iii) To verify and maintain records of the identity of its clients
- (iv) To preserve records in respect of (i), (ii) and (iii) above for a period of ten years from the date of cessation of transactions with the clients.

Key Elements of the Policy:

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The Policy covers the following key areas and defines procedures and measures to be undertaken by the concerned officials.

1. Designation of an officer for reporting of suspicious transactions
2. Customer Due Diligence
3. Transaction Monitoring & Record Keeping
4. Maintenance and Perseverance of Records
5. Audit/ testing of Anti-Money Laundering program
6. Reporting to Financial Intelligence Unit (FIU)-India
7. Employees' Hiring and Training
8. Investors' Education

1. CUSOMER DUE DILIGENCE

1.1 Customer due diligence (“CDD”) measures comprise the following:

The concerned official shall obtain sufficient information about the prospective client and follow the Know Your Client (KYC) procedure for in-person verification of client for both the accounts i.e. Demat and Trading. The concerned official shall take special care in case the natural person, who is desirous of opening an account, suggests that someone else will operate the account in his name. The identification process for the ultimate beneficiary or authority controlling the account should be undertaken, as per the prevalent norms as may be applicable.

In case of corporate clients or clients being legal person, the identity and beneficial ownership of the legal person should be ascertained and verified. The authorized person being designated to operate the account should also be identified both for beneficial owner entities or group as well as the authorized person.

1.2 Client Acceptance procedure:

The concerned officials i.e. front office as well as back office executives shall ensure that

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- (1) No account is opened in fictitious or benami name or in anonymous manner.
- (2) The senior official shall classify the client into High Risk, Medium Risk and Low Risk category considering the client's location, address, nature of business activity, trading turnover and the manner of making payments.

If a client's profile warrants likelihood of being of high-risk category, immediate attention of the Principal Officer shall be drawn.

- (3) The documents defined and processes prescribed by SEBI/Exchanges, RBI, NSDL/CDSL and the existing management policies are strictly adhered to.
- (4) In case a client is authorizing someone else for operating his account, the same shall be duly recorded with proper process for authorized person. In such cases, a certified true copy of properly executed power of attorney on stamp paper of applicable value must be obtained and the signature as well as details of Power of Attorney should be recorded in the System.
- (5) Sufficient care should be taken to verify past history/track record of the client to ensure that no actions were initiated against him by any regulatory authority or enforcement agency, and that the identity of the client does not match with any person having criminal background or is not banned in any other manner.
- (6) Non-resident clients' registration should be done only after obtaining proper introduction/recommendation from a reliable source like Bank etc.
- (7) A new client should be registered after obtaining introduction from sub-broker who is registered with SEBI.
- (8) The following classes of clients are defined as "Special Category Clients" (SCC) and the registration is done after more detailed scrutiny and after obtaining reference from a reliable source only.

A. Non Resident Clients

B. High net worth Clients

C. Trusts, Charitable Organizations, NGO and organizations receiving donations.

D. Politically exposed person of foreign origin

E. Current or former senior high profile politicians, their family members and connected entities.

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1.3 Activation in DPM System and Allotment of Demat Account No.:

After completion of Know Your Client (KYC) procedure, the client data shall be entered and authorized in DP system and thereafter activated in DPM System (software provided by NSDL to DP), for allotment of Demat Account Number to the client.

1.4 Allotment of UCC:

After completion of Know Your Client (KYC) procedure, Unique Client Code (UCC) is allotted to the client and the same shall be uploaded to the Exchange with Permanent Account Number (PAN).

2. TRANSACTION MONITORING & RECORD KEEPING

2.1 All persons associated with operations, risk management and back office operations, either Broking or DP shall take due care and report any transaction which is felt to be of suspicious nature on any ground, shall alert the Principal Officer through his immediate reporting authority. The following illustrations would explain the basic approach.

1. Unusually large transactions / patterns which appear to have no economic purpose.
2. Off market transactions with other beneficiary account holders having no reasonable grounds.
3. Clients whose identity verification is difficult
4. Substantial increase in activity without apparent cause
5. Sudden activity in dormant account
6. Suspicious off market transactions
7. Large deals at prices away from the market
8. Large number of accounts having common parameters such as common partner/ directors/ addresses, email address, telephone number/ introducers or authorized signatories.
9. Unusual unique client code change activity with no proper justification in respect of market trades

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- 2.2 High value transactions shall be identified for review by appropriately authorized back office executive and any transaction of suspicious nature shall be immediately intimated to Principal Officer.
- 2.3 The officials associated with front desk and risk management and back office shall ensure that
1. All sub-brokers/authorized persons/clients are given a limit on either mark to market loss, gross exposure etc. parameters based on their balances available with the company. The sub-brokers shall be responsible for setting up the default limits for their respective clients.
 2. No cash transactions with the client to be undertaken.
 3. Cheques and securities received from client shall have to be from his pre-declared bank account and demat account. In case on non-compliance, shares or moneys, as the case may be, be returned to the account from where it has come from and the relationship terminated after closing out all transactions in accordance with provisions in this regard.
 4. Illiquid contracts in F&O segments shall not be allowed to all clients.

3. MAINTENANCE AND PRESERVANCE OF RECORDS

ACML currently maintains all records and documents prescribed under the applicable laws, rules, regulations, byelaws, circulars and guidelines etc. (A copy of SEBI circular is attached as Annexure-II) The officials shall ensure that the records are kept in an easily accessible manner so that it shall be available as and when required by the relevant authorities.

- 3.1 In case of any suspicious transactions being reported by Principal Officer, all correspondence and documents pertaining to the client and to the transaction be retained and maintained for a period of 10 years as prescribed by law.
- 3.2 The records for customer identification and KYC forms should also be maintained and retained for ten years from the date of cessation of the transactions as per section 12(2) of

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Prevention of Money Laundering (PML) Act 2002 as well as till the relationship with the client subsist.

- 3.3 The identification documents and other details should be periodically updated.
- 3.4 Changes required in client bank details and address details pursuant to requests received in properly filled modification form with sufficient proofs should be incorporated in records/database and the same to be retained with client identification documents.

4. REPORTING TO FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA

ACML shall report information relating to suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address; or to the address which may prescribe hereafter:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi - 110021.
Website: <http://fiuindia.gov.in>

Type of information required to be furnished:

Every banking company, financial institution and intermediary is required to furnish information about –

- all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
- all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
- 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;
- all suspicious transactions whether or not made in cash

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Time limits prescribed for furnishing information to Director, FIU-IND:

- Rule 8 of the Rules notified by Notification No.9/2005 (as amended by Notification No.15/2005 and 4/2007) prescribes time limit for furnishing information to the Director, FIU-IND.
- The time limit for furnishing information about cash transactions and integrally connected cash transactions to Director, FIU-IND is 15th day of the succeeding month.
- 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 should be furnished to the Director, FIU-IND not later than seven working days from the date of occurrence of such transactions.
- All suspicious transactions have to be furnished to the Director, FIU-IND not later than seven working days on being satisfied that the transaction is suspicious.

5. DESIGNATION OF AN OFFICER FOR REPORTING OF SUSPICIOUS TRANSACTIONS

ACML shall appoint the Principal Officer who would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in identification and assessment of potentially suspicious transactions. Names, designation and addresses (including e-mail addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-Financial Intelligence Unit (FIU).

6. EMPLOYEES' HIRING AND TRAINING

6.1 Hiring of Employees

ACML shall have adequate screening procedures in place to ensure high standards when hiring employees. It shall identify the key positions within the ACML's structure having regard to the risk of money laundering and terrorist financing.

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6.2 Employees' Training

ACML shall have an ongoing employee-training programme so that the members of the staff are adequately trained in Anti Money Laundering and Combating Financing of Terrorism procedures.

7. INVESTORS' EDUCATION

ACML shall prepare specific literature so that the clients can be educated on the objectives of the Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) program.

8. SUB-BROKER TRAINING, AWARENESS FOR IMPLEMENTATION OF ANTI MONEY LAUNDERING POLICY

8.1 ACML shall see that all its sub-brokers should adopt Anti-Money Laundering Policy and comply with the requirements

8.2 The registered sub brokers shall submit an undertaking for complying with PMLA requirements. The format of undertaking is attached as Annexure-III.

Review of the Policy:

The policy shall be reviewed, from time to time as and when required by the Management.

LIST OF ABBREVIATIONS USED

- ASE Capital Markets Ltd. : ACML
- Anti Money Laundering : AML
- Combating Financing of Terrorism : CFT
- Prevention of Money Laundering (PML) Act : PMLA
- Customer due diligence : CDD
- Special Category Clients : SCC

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- Know Your Client : KYC
- Unique Client Code : UCC
- Permanent Account Number : PAN
- Financial Intelligence Unit-India : FIU-IND
- Depository Participant : DP

REFERENCE

1. Prevention of Money Laundering Act 2002
2. SEBI Circular Ref no. ISD/CIR/RR/AML/1/06 dated January 18, 2006 providing 'Guidelines on Anti Money Laundering Standards'
3. SEBI Master Circular Ref no. ISD/AML/CIR-1/2008 dated December 19, 2008 on Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under-Master Circular on AML/CFT