

Section 12 of the Prevention of Money Laundering Act, 2002 and rules thereunder require every banking company, financial institution and intermediary to verify and maintain the records of the identity of all its clients, in such manner as may be prescribed. Rules 9 and 10 of the Rules notified by Notification No. 9/2005 dated 1st July 2005 provide for verification and maintenance of the records of the identity of clients.

The Guidelines on Prevention of Money Laundering Standards, inter-alia require the members to have documented procedures to implement the Anti Money Laundering provisions as envisaged under Prevention of Money Laundering Act, 2002. i.e.

1. Ensure Customer Due Diligence.
 2. Classify clients into high, medium & low risk categories as per the risk perceived.
 3. Have system in place for generation of alerts for identifying suspicious transactions.
 4. Monitor and report Suspicious Transactions (STRs) to FIU-India.
 5. Impart training to staff & educate clients about objectives of PMLA.
- As per PMLA guidelines, all branches and staff of VNS Finance & Capital Services Ltd. have to comply with following requirements.**

Client Due Diligence (CDD) Process

1.1 The CDD measures comprise the following:

(a) Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

(b) Verify the client's identity using reliable, independent source documents, data or information;

(c) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted;

(d) 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 (c); (e) Understand the ownership and control structure of the client;

(f) 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 registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and

(g) Registered intermediary shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

1.2 Policy for acceptance of clients:

1.2.1 All branches and staff of VNS should follow given below safeguards while accepting the clients:

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly looked into while going through Clients KYC form for example, 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. Accordingly while opening new account of the would be client, **classification of clients into low, medium and high risk have to be done**. 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.
- c) 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.
- d) Ensure that an account is not opened where it is not possible to ascertain the identity of the client, or the information provided to the us is suspected to be non genuine, or there is perceived non co-operation of the client in providing full and complete information. We may not continue to do business with such a person and file a suspicious activity report. It shall also be evaluated by our RMS team on continuous basis, whether there is suspicious trading in determining whether to freeze or close the account. We have to be cautious and should ensure that we do not return securities of money that may be from suspicious trades. However, any future action would be taken in consultation with relevant authorities.
- e) In no circumstances client is permitted to act on behalf of another person unless and until it has specific authority as per rules and regulations of exchanges / SEBI. 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 the intermediary, 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.
- f) Necessary checks and balance to be carried out 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.
- (g) The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

1.3 Risk-based Approach

1.3.1 It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, VNS Finance & Capital Services Ltd., the registered intermediary would apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that an enhanced client due diligence process would have to be implemented for higher risk categories of clients.

Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents would necessarily depend on the risk category of a particular client.

Further, low risk provisions would not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

1.4 Clients of special category (CSC):

Such clients include the following :

- i. Non resident clients
- ii. High net-worth clients,
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- iv. Companies having close family shareholdings or beneficial ownership
- v. Politically Exposed Persons (**PEP**) are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent para 1.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.
- vi. Companies offering foreign exchange offerings
- vii. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens/ sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediary apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org), shall also independently access and consider other publicly available information.

- viii. Non face to face clients
- ix. Clients with dubious reputation as per public information available etc.

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

1.5 Client identification procedure (CIP):

The KYC policy clearly spells out the client identification procedure to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data. For example :

It should be ensured that an account is not opened where we are unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to us is suspected to be non genuine, perceived non co-operation of the client in providing full and complete information or client opened in a fictitious / benami name or on an anonymous basis.

- a) All staff should seek relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined in clause 1.5 shall also be applicable where the beneficial owner of a client is a PEP.
- b) Any business relationships with PEPs, would require approval from senior management. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, approval to continue the business relationship with PEP would be required from the senior management.
- c) Reasonable measures to be taken to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP”.
- d) The client shall be identified by the intermediary, VNS Finance & Capital Services Ltd., by using reliable sources including documents / information. All precaution would be taken to obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
- e) Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority of the intermediary, i.e. VNS Finance & Capital Services Ltd

1.5.1 SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediary from time to time as detailed in the table. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, the above policy and procedures would frame our own internal directives based on our experience in dealing with our clients and legal requirements as per the established practices.

1.5.2 We hereby formulate and implement a CIP which would incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediary of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and need to be adhered to by registered intermediary.

1.5.3 It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediary (brokers, depository participants, AMC's etc.) from obtaining the minimum information/documents from clients as stipulated in the PML Rules/SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediary.

This shall be strictly implemented by all intermediary and non-compliance shall attract appropriate sanctions by the respective authority.

New Client registration step to be followed further to policy and procedures mentioned above for PMLA

Thereupon the concerned staff checks the antecedents of clients whether Individual, Firm, or Company etc. and particular care is taken for clients who want to trade in Currency and F&O segment (s) and Currency Segment (s)

It is to be noted by all that we do not have a system of giving leverage or margin trading to Clients. In fact, Initial Margin is taken from the client in the form of shares or cheque payment and trade allowed on the basis of margin available of client with us.

The client is given client registration form for filling up. In case they require any guidance in completing the form, the same is provided. The concerned staff insist on :

- A. In case of Individual:
1. Certified Copy of PAN Card of Individual
 2. One copy of his \ her recent photograph
 3. Certified copy of Proof of Identity and Address.
 4. Valid Bank Proof and Detail of other financial for setting of trading limit.

Types of entity	Documentary requirements
Corporate	<ul style="list-style-type: none"> • Copy of the balance sheets for the last 2 financial years (to be submitted every year). • Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year). • Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations. • Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly. • Copies of the Memorandum and Articles of Association and certificate of incorporation. • Copy of the Board Resolution for investment in securities market. • Authorised signatories list with specimen signatures.
Partnership firm	<ul style="list-style-type: none"> • Copy of the balance sheets for the last 2 financial years (to be submitted every year). • Certificate of registration (for registered partnership firms only). • Copy of partnership deed. • Authorised signatories list with specimen signatures. • Photograph, POI, POA, PAN of Partners.
Trust	<ul style="list-style-type: none"> • Copy of the balance sheets for the last 2 financial years (to be submitted every year). • Certificate of registration (for registered trust only). • Copy of Trust deed. • List of trustees certified by managing trustees/CA. • Photograph, POI, POA, PAN of Trustees.
HUF	<ul style="list-style-type: none"> • PAN of HUF. • Deed of declaration of HUF/ List of coparceners. • Bank pass-book/bank statement in the name of HUF. • Photograph, POI, POA, PAN of Karta.
Unincorporated association or a body of individuals	<ul style="list-style-type: none"> • Proof of Existence/Constitution document. • Resolution of the managing body & Power of Attorney granted to transact business on its behalf. • Authorized signatories list with specimen signatures.
Banks/Institutional Investors	<ul style="list-style-type: none"> • Copy of the constitution/registration or annual report/balance sheet for the last 2 financial years. • Authorized signatories list with specimen signatures.
Foreign Institutional Investors (FII)	<ul style="list-style-type: none"> • Copy of SEBI registration certificate. • Authorized signatories list with specimen signatures.
Army/ Government Bodies	<ul style="list-style-type: none"> • Self-certification on letterhead. • Authorized signatories list with specimen signatures. •
Registered Society	<ul style="list-style-type: none"> • Copy of Registration Certificate under Societies Registration Act. • List of Managing Committee members. • Committee resolution for persons authorised to act as authorised signatories with specimen signatures. • True copy of Society Rules and Bye Laws certified by the Chairman/Secretary.

INSTRUCTIONS/ CHECK LIST

1. Additional documents in case of trading in derivatives segments - illustrative list:

Copy of ITR Acknowledgement	Copy of Annual Accounts
In case of salary income - Salary Slip, Copy of Form 16	Net worth certificate
Copy of demat account holding statement.	Bank account statement for last 6 months
Any other relevant documents substantiating ownership of assets.	Self declaration with relevant supporting documents.

**In respect of other clients, documents as per risk management policy of the stock broker need to be provided by the client from time to time.*

2. Copy of cancelled cheque leaf/ pass book/bank statement specifying name of the constituent, MICR Code or/and IFSC Code of the bank should be submitted.
3. Demat master or recent holding statement issued by DP bearing name of the client.
4. For individuals:
 - a. Stock broker has an option of doing 'in-person' verification through web camera at the branch office of the stock broker/sub-broker's office.
 - b. In case of non-resident clients, employees at the stock broker's local office, overseas can do in-person' verification. Further, considering the infeasibility of carrying out 'In-person' verification of the non-resident clients by the stock broker's staff, attestation of KYC documents by Notary Public, Court, Magistrate, Judge, Local Banker, Indian Embassy / Consulate General in the country where the client resides may be permitted.
5. For non-individuals:
 - a. Form need to be initialized by all the authorized signatories.
 - b. Copy of Board Resolution or declaration (on the letterhead) naming the persons authorized to deal in securities on behalf of company/firm/others and their specimen signatures.

The documents are inspected in original and copies are compared and kept with client registration form.

The verification remarks are written and signed by the VNS Staff on the form.

The client is advised to take copy of the agreement etc.

Then the client agreement form with stamp paper and document copies are sent to Head office at 401 – 402 , A Wing, Mangalya, Marol Maroshi Road, Near Marol Fire Station, Andheri East, Mumbai – 400 059. The client registration process is centralized at Head Office Mumbai.

At Head Office Mumbai the PAN is verified with Income Tax Site of the prospective clients. Name is also checked with the consolidated UN List accessible on website at URL: <http://www.un.org/sc/committees/1267/conslist.shtml>. Name is also checked with debarred entities list available on SEBI \ NSE \ BSE \ MCX SX website.

All other documents and form are examined then the clients contacts are checked by the dealing staff by making a telephone call to the client directly and checking his address and other details on phone.

Our Back office has a provision to block the entities as per SEBI & NSE list available on the website and such entities are blocked so that they are not allowed to open the account with us.

Thereafter the client is registered and Unique Client Code with details are uploaded to NSE in UCI Online \ BSE in UCC Webx File generation .

Thereafter a welcome letter is sent to the client at his notified address with details of Unique Client Code allotted to him \ her \ them and important contact details of VNS.

On Continuous Basis after opening New Client Account for trading in Equity, F&O & Currency Segment on NSE \ BSE \ MCX&S and opening of Depository account

After start of trading activity and opening of depository account scrutiny of client database becomes an ongoing process.

Our dealing team keeps regular watch on all transaction happening on exchange through us. Limits are set according to available balance of clients with us.

In case of corporate and high net worth clients, copy of annual returns are asked for ongoing risk management and surveillance activity carried out by our compliance and risk management team.

System is inbuilt for not allowing excess volume / limits to clients.

System also has the facility to not allow the delivery of shares from other than client's own account. Similarly the receipts from other than designated bank accounts are also blocked by the system. Further any unusual transaction is brought to the notice of compliance team.

Name of clients is checked and compared with the consolidated UN List accessible on website at URL: <http://www.un.org/sc/committees/1267/conslst.shtml>. Name is also checked with debarred entities list available on SEBI \ NSE \ BSE \ MCX&S website.

Special attention is given by dealing team to see that not much volume is created in illiquid scrip and if any such activity is seen the same be brought to the attention of compliance team.

Latest documents are insisted from clients trading in F&O segment of NSE and high value clients in Cash and Currency segment on regular sample basis every year.

In case of sudden high volume in particular client account the same is cross checked by giving telephone call by our dealing team.

SMS alerts are being sent to all clients for their outstanding ledger balance, margin, outstanding position in derivative segments