

**MANGAL KESHAV GROUP**

**MK COMMODITY BROKERS LIMITED**

**ANTI MONEY LAUNDERING**

**POLICES AND PROCEDURES ADOPTED BY THE COMPANY**

**1) Policy Statement:**

Our Corporate philosophy is not to get associated in any form with any violations in any country for any reason whatsoever, including anxiety for corporate profit or assisting a client.

**2) Policy Objectives:**

- To prevent criminal elements from using our business for money laundering or terrorist financing activities
- To understand the clients and their financial dealings better, which in turn would help us to manage the risk prudently
- To put in place appropriate controls for detection and reporting suspicious transactions in accordance with applicable laws/laid down procedures
- To comply with applicable laws and regulatory guidelines.

**3) Key Elements of the Policy:**

3.1 **No Cash transactions:** The Company will not enter into any cash transactions with clients for any reason whatsoever except in exceptional circumstances as permitted by the Rules, Regulations, Bye-laws, circulars of the Exchanges.

3.2 **Client Due Diligence Process:**

3.2.1. **Principles to be followed:**

3.2.1.1 Obtain sufficient information to identify persons who beneficially own or control accounts. Wherever it is apparent that the commodity derivatives acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using client identification and verification procedures. The beneficial owner is the natural person or persons on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.

3.2.1.2 Verify the Client's identify using reliable, independent source documents, data or information.

3.2.1.3. Conduct on-going due diligence and scrutiny to ensure that the transactions being conducted are consistent with our knowledge of the client, his business/risk profile, taking into account where necessary, the client's source of funds.

3.2.2. **Client Acceptance Policy:**



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- 3.2.2.1. All employees have to ensure that the guidelines issued from time to time regarding Client/business acceptance is strictly followed. Existing/Past relationship with the client should be verified and it must be ensured that the client is not on the negative list/defaulters list.
- 3.2.2.2. A detailed search to be carried out to ensure that the Client is not in defaulters/negative list of regulators. (Search should invariably be carried out on SEBI website [www.sebi.gov.in](http://www.sebi.gov.in), FMC website [www.fmc.gov.in](http://www.fmc.gov.in), Ministry of Corporate Affairs sponsored website [www.watchoutinvestors.com](http://www.watchoutinvestors.com) and UN website at [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml)),
- 3.2.2.3. In case of a corporate, the antecedents of the Company (change of name and registered office in particular) and of all promoters and directors is to be traced. The details of the current Directors can be verified from the web-site of the Ministry of Corporate Affairs.
- 3.2.2.4. In case of individuals, they are to be classified into different categories of risk (low, medium, high) depending on the volume of transactions, trading turnover, manner of payment etc. High Net worth Individuals, companies with close family shareholding, Politically Exposed Persons, non face to face clients, clients with dubious reputation, etc constitute High Risk Category. In case of High Risk Category due care and caution should be exercised at the acceptance stage itself. The profile of such clients, particularly their contact details and financial status, has to be monitored and updated regularly.
- 3.2.2.5 **Clients of Special Category (CSC):** Such clients include the following:
- High net worth clients; (“High net worth clients” are clients with disclosed net worth of Rs. 10 Crores or more).
  - Companies having close family shareholdings or beneficial ownership
  - Politically exposed persons (PEP)
  - Current/Former Head of State, Current or Former Senior 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;
  - Non face to face clients
  - Clients with dubious reputation as per information available in the public domain eg. clients in the willful defaulters / negative list of RBI/other regulators, clients debarred by SEBI/FMC/Exchanges, clients whose names are appearing on the website of watchoutinvestors.com, clients in the blacklist of government / UN agencies etc.

Note: In some specific cases like Non Resident clients (if and when permitted to trade in commodities by the regulatory authorities), Trusts, Charities, NGOs and organizations receiving donations and Politically Exposed Persons (PEP), a more rigorous identification procedure should be followed, on a case to case basis, also keeping in view any additional requirements / approvals specified by the regulatory authorities.

- 3.2.2.5. An assessment should be made of the financial worthiness of the client by obtaining appropriate declarations at KYC stage. This information should be subsequently used for

monitoring whether the transactions of the clients are within the declared means and if the value of the transactions is increasing the client should be asked to disclose the sources of the increase in income.

- 3.2.2.6. A thorough assessment should be carried out to ascertain whether the client is dealing with us on his own behalf or someone else is the beneficial owner; for example while Mr. A may be our client as per the documents, Mr. B may be giving instructions all the time. If there are doubts, before acceptance of the clients, thorough due diligence should be carried out to establish the genuineness of the claims of the clients. Secrecy laws shall not be allowed as a reason not to disclose true identity of the beneficiary/transacting party.
- 3.2.2.7 No Account should be opened in a fictitious name/benami name or on an anonymous basis.
- 3.2.2.8. No Client should be accepted where it is not possible to ascertain the identity of the client, or the information provided is suspected to be non-genuine, or if there is perceived non-cooperation of the client in providing full and complete information.
- 3.2.2.9. In the case of Clients who want to act through agent under Power of Attorney (POA), a notarised power of attorney should be obtained. Original of the POA should be verified. Care should be taken to ensure genuineness of the client.
- 3.2.2.10 Know your client forms prescribed by FMC/Commodity Exchanges/Depositories, duly signed by the client and also witnessed should be obtained before acceptance of the clients.

### 3.3 **Client Identification Policy:**

- 3.3.1 Before opening the accounts, there should be a personal interaction with the client.
- 3.3.2 Before opening the accounts, in case of companies any one of the following viz. main promoter/Managing Directors/Whole time director/key management person and in the case of partnership any one of the active partners should be met in person.
- 3.3.3. Caution is to be exercised when identifying companies which appear to be shell companies' or 'front companies'. Shell/front companies are legal entities which have no business substance in their own right but through which financial transactions may be conducted.
- 3.3.4. In case of clients acting through Powers of Attorney, the Principal and agent should come in person for the first time. Photos of both to be obtained along with signatures on the photos. Valid proof of Identity and Address of the Attorney must be verified with the original and photocopies of the proof must be kept on record. The KYC form, Member Constituent Agreement and the Risk Disclosure Document must compulsorily be signed by the Client himself and not by the POA holder.
- 3.3.5 Original of valid Photo identity of individual/promoter/director to be verified by our official for identifying the client. Signature of the persons should be obtained on the

photos. Photocopy of the proof should be taken by our official who should also certify thereon about having verified with original.

3.3.6. In case of individuals, proof of identify (as prescribed by FMC) should be produced by way of any of the following documents (un-expired original document shall be verified):

- PAN Card
- Passport
- Voter ID
- Driving License

Photo copy of the proof should be taken by our official who should also certify thereon about having verified with the unexpired original.

3.3.7. **Proof of address:** Any of the following address proof to be obtained (un-expired Original should be verified)

- Passport (Not expired)
- Voter's ID Card (Complete Address with Pin code)
- Driving License (Complete address with Pin code and not expired)
- Ration Card (Complete address with Pin code)
- Flat Maintenance Bill with Society Registration number (not more than 2 months old)
- Landline Telephone Bill (not more than 2 months old)
- Electricity Bill (not more than 2 months old)
- Bank Account Statement (not more than 4 months old)

3.3.8. Where the client is a company, certified copies of the following documents shall be obtained

- i) Certificate of Incorporation
- ii) Memorandum and Articles of Association
- iii) Copies of the balance sheet for the last 2 financial years (Copies of annual balance sheet to be submitted every year)
- iv) Copies of latest shareholding pattern, including list of all those holding more than 5 % in the share capital of the company, duly certified by the company secretary/whole time director/MD (Copy of updated shareholding pattern to be submitted every year)
- v) Copy of resolution from the Board of Directors approving participation in commodity derivatives trading and naming authorized persons for dealing in commodity derivatives and power of attorney granted to its managers, officers or employees to transact on its behalf, and
- vi) Photographs of whole time directors, individual promoters holding 5% or more, either directly or indirectly in the shareholding of the company and of persons authorized to deal in commodity derivatives. Identification documents (identity and personal address) and signature verification as applicable to individuals must be obtained in respect of managers, officers or employees holding POA to transact on its behalf.

- 3.3.9.. Care should be taken if the persons mentioned in the Memorandum and Articles of Association as promoters/first directors are different from the current promoters/directors. If the name/address of registered office has been changed, reasonable enquiries should be made.
- 3.3.10.. Proof of address (as in the case of individuals) of the registered office of the Company, being one of the relevant documents should also be taken.
- 3.3.11. Where the client is a partnership firm, certified copies of the following documents shall be obtained:
- i) Registration certificate
  - ii) Partnership deed and
  - iii) Identification documents (identity and personal address) and signature verification as applicable to individuals must be obtained in respect of partners, managers, officers or employees holding POA to transact on its behalf.
  - iv) Proof of address of the firm on the basis of relevant documents as applicable to individuals
- 3.3.12. Care should be taken to ensure that the orders are placed by the client and not by others on behalf of the client. If the client proposes to authorize another person to place orders on his/her behalf, a properly executed irrevocable Power of Attorney/ Letter of Authority should be obtained and the person who will be placing orders shall also be identified using the above procedure. Periodical Statement of accounts should be sent to the client (and not POA holder) at his/her address mentioning that if he/she does not respond within 30 days of date of receipt of the letter, the contents shall be taken as accepted and confirmed.
- 3.3.13. After opening broking accounts and/or registering a POA or making any modifications in the Client profile, a letter of thanks should be sent by courier/registered post/speed post, at the recorded address of the client. This will serve the dual purpose of thanking them for opening the account or updating their profile, as the case may be, and also help in verification of genuineness of address provided by the account holder. Transactions should not be allowed if the mail comes back undelivered. The undelivered envelope should be retained with the KYC papers for further inquiries, if necessary.

#### **4) Monitoring of transactions:**

- 4.1. All the high risk client accounts should be monitored at least once in a calendar quarter and any exceptions need to be reported to the management and to the Principal Officer.
- 4.2. If any transaction appears to be suspicious it is to be reported to the Principal Officer immediately.
- 4.3. For identifying the suspicious transactions, the following illustrative questions may be considered:

- Is the client willing to accept uneconomic terms without apparent reason?
  - Is the transaction inconsistent with legitimate business activity?
  - Is the transaction inconsistent with the normal pattern of the client's trading activity?
  - Is the transaction inconsistent with the client's account-opening documents?
  - Has the client requested that the transaction be cleared in a way that is inconsistent with normal practice?
  - Is the client financially capable of the transactions he has asked for?
  - Clients whose identity verification seems difficult or clients who appear not to cooperate may be declined.
  - Large number of accounts having common parameters such as common partners/directors/promoters/address/ email addresses/telephone numbers /introducers or authorized signatories.
  - Transactions with no apparent economic or business rationale
  - Sudden activity in dormant accounts;
  - Source of funds are doubtful or there is inconsistency in payment pattern;
  - Transfer of sale proceeds to apparently unrelated third parties;
  - Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
  - Purchases made on own account transferred to a third party
  - Suspicious off market transactions;
  - Large deals at prices away from the market;
  - Accounts based as 'passed through'. Where no transfer of ownership of securities or trading has occurred in the account and the account is being used only for funds transfers/layering purposes.
  - Trading activity in account of high risk clients based on their profile, business pattern and industry segment.
- 4.4 Caution should be exercised if accounts have been in-operative for more than Six (6) months and activity resumes thereafter.
- 4.5 Care should also be taken if the clients make high value payments (Rs.10 lakhs and above) from bank accounts not declared to us in the Client Registration/KYC forms, or when they make payments through Demand Drafts and not cheques drawn on their declared bank accounts. The details of such transactions should be noted in a separate register.
- 4.6 Caution should exercised if there is any exceptionally high quantity/value transaction in accounts. Caution should also be exercised if large credits in the account are advised to be transferred to any account with us.
- 4.7 The Principal Officer shall undertake random checks as to the nature of the transactions and if they are suspicious transactions.

## 5) **Maintenance of records:**

- 5.1 All records including client identification, account files and business correspondence shall be maintained in hard and soft form for a period of ten years.
- 5.2 In the case of transactions where any investigations by any authority has been commenced and in the case of transactions which have been the subject of suspicious transactions reporting all the records shall be maintained till the authority informs of closure of the case.

**6) Principal Officer:**

The company has designated the Compliance officer as the Principal Officer who shall be responsible for implementation and compliance of this policy. The duties of the Compliance Officer shall include the following:

- Monitoring the implementation of Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) Policy
- Reporting of Transactions and sharing of information as required under the law
- Liasoning with law enforcement agencies.
- Ensuring submission of periodical reports to Top Management. The report shall mention if any suspicious transactions are being looked into by the respective business groups and if any reporting is to be made to the authorities.
- Providing clarifications to staff members on the provisions of the Act, Rules, Guidelines and the policy of the company.

**7) Staff Awareness and training**

Staff who deal directly with the public are the first point of contact with potential money launderers. Their efforts are therefore vital to the reporting system for such transactions. Staff should keep abreast of the practices to identify suspicious transactions and on the procedure to be adopted when a transaction is deemed to be suspicious. In short, employees must familiarize themselves with their clients' normal trading activities and usual market practices in order to recognize anomalous behavior. Suspicions concerning the source of assets or the nature of a transaction should not be ignored. It is the active responsibility of every person in the company to seek to ensure that the company's facility is not being misused. Staff should not disclose to the client concerned nor to other third persons that their transactions are deemed suspicious or if information may be transmitted to the authorities.

**8) Hiring of Employees**

The company shall have adequate screening procedures in place to ensure high standards when recruiting employees. They shall identify the key positions within the organization structure and ensure that the employees taking up such key positions are suitable and competent to perform their duties.

**9) Investor Education**



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Implementation of the measures outlined herein may require us 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. Staff/Authorised Persons must, therefore, sensitize clients about these requirements as the ones emanating from Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) framework. Specific literature/pamphlets etc may also be prepared so as to educate the client of the objectives of the AML/CFT programme.