

*Mukesh Brokerage & Financial (I) Ltd*

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## *Mukesh Brokerage & Financial (I) Ltd*

- CLIENT WISE SURVEILLANCE

The surveillance clientwise takes cue from the alerts generated scripwise.

All the clients who have traded in the scrip placed in "SCRIP ALERT" are scrutinized for their other scrip dealings.

Looking at the general quality of scrips that they are dealing in, Surveillance Manager reports to the Director for further action on whether we want to continue to deal as a broker for that client or not.

Further any big value transactions are checked for whether the client is not trading beyond ones known Income (i.e. Income declared in KYC)



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## INTRODUCTION

Prevention of Money Laundering Act, 2002 (PML Act) came into effect from July 1, 2005 vide Notification No. GSR 436(E) dated July 1, 2005 issued by Department of Revenue Ministry of Finance of Government of India and SEBI Circular No. ISD/CIR/RR/AML/1/06 dated January 18, 2006 mandated that all intermediaries should formulate and implement a proper policy framework as per guidelines on Anti Money Laundering measures and also to adopt a "Know Your Customer" (KYC) policy. The intermediaries may, according to their requirements specify additional disclosures to be made by clients for the purpose of identifying, monitoring and reporting incidents of money laundering and suspicious transaction undertaken by clients. Further, SEBI Circular NO. ISD/CIR/RR/AML/2/06 dated March 20, 2006 advising all intermediaries to take necessary steps to ensure compliance with the requirement of section 12 of the PML Act requiring *inter alia* maintenance and preservations of records and reporting of information relating to cash and suspicious transaction to Financial Intelligence Unit-India (FIU-IND). The PML Act, the Rules issued thereunder and the guidelines/ circulars issued by SEBI thereto, as amended from time to time, are hereinafter collectively referred to as "AML Laws"



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The United Nations Global Programme against money laundering has identified ten fundamentals laws of money laundering:

1. The more successful a money laundering apparatus is in imitating the patterns and behaviors of legitimate transactions, the less the likelihood of it being exposed.
2. The more deeply embedded illegal activities are within the legal economy and the less their institutional and functional separation, the more difficult it is to detect money laundering.
3. The lower the ratio of illegal to legal financial flows through any given business institution, the more difficult it is to detect money laundering.
4. The higher the ratio of illegal "services" to physical goods production in any economy, the more easily money laundering can be conducted in that economy.
5. the more the business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals, the more difficult the job of separating legal from illegal transactions.
6. The greater the facility of using cheques, credit cards and other non-cash instrument for effecting illegal financial transactions, the more difficult it is to detect money laundering.
7. The greater the degree of financial deregulation for legitimate transactions, the more difficult it is to trace and neutralize criminal money.
8. The lower the ratio of illegally to legally earned income entering any given economy from outside, the harder the job of separating criminal from legal money.
9. The greater the progress towards the financial services supermarket and the greater the degree to which all manner of financial services can be met within one integrated multi-divisional institution, the more difficult it is detect money laundering.
10. The greater the contradiction between global operation and national regulation of financial markets, the more difficult the detection of money laundering.



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## OBJECT OF THE ACT AND RULES FRAMED.

The act and rules framed there under has been implemented pursuant to followings :-

1. Political declaration and global programme of action as annexed to resolution S-17/2 which was adopted by the General Assembly of the United Nations at its seventeenth special session held on the twenty-third day of February, 1990.
2. Political declaration adopted by the special session of the United Nations General Assembly held on September 8<sup>th</sup> to 10<sup>th</sup> June, 1998 calling upon Member States to adopt national money-laundering legislation and programme.

The objective of the act and rules framed there under is to set standards, develop and promote policies to combat money laundering and terrorist financing. The offence under the act and rules framed there under are punishable and it also

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empowers relevant authority with attachment and confiscation of proceeds of crime and or property so acquired.



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## **Obligations of Intermediaries**

Chapter IV Section 12 of The Prevention of Money Laundering Act, 2002 requires every banking company, financial institution and intermediary to:

- a. Maintain a record of all transactions as per the prescribed nature and value and such transactions may comprise of a, single transaction, or a series of interconnected transactions that have taken place within a span of a month.
- b. Furnish information of such transaction to the director within such prescribed time.
- c. To verify and maintain records of the identity of all its clients as prescribed
- d. To furnish such information to the director where the principal officer has reason to believe that a single transactions or a series of related transactions have been valued below the prescribed value so as to avoid the provisions of this section.

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## COMPANY GUIDELINES FOR ANTI MONEY LAUNDERING.

RECORD TO BE MAINTAINED IN RESPECT OF CLIENTS DOMESTIC OR NRI/PIO/COMPANIES/FIRMS

- Cash transactions of the value more than Rs. 10 lakhs or its equivalent in foreign currency
- All series of cash transaction integrally connected to each other which are below 10 lakhs or its equivalent in foreign currency in one month

### ❖ Policies and procedures

- Policy of acceptance of clients
- Procedure for identifying the clients
- Suspicious transaction reporting and customer due diligence.

### ❖ Policy and procedure of identifying /acceptance of clients

1. The clients such as individuals, HUF's, Firms (registered or unregistered), Public Limited Companies, Private Limited Companies, Non Resident Indians and Persons of Indian Origin get registered as a client after strictly following Know Your Client formalities prescribed by SEBI / Exchanges in this regard.
2. The highlights of the some of the guidelines in this regard are as under:



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- The company will not allow benami or fictitious accounts where the client is desirous of keeping his/its identity confidential or secret.
- The company will not allow multiple client accounts with transposition of the names of the clients or in short forms.
- All attachment with KYC should be duly verified with originals by the respective sub-brokers or the branch head respectively.

Further the main office will insist on PAN nos. with the form & verify the PAN details with the Income Tax Department site for further verification of the clients.

- The clients will be placed under low, medium and high risk category based on their turnover per day and regularity of Pay-In & Pay-Out of shares and Funds. The client's transaction in a single day for less than 10 lakhs will be placed under the low risk category, more than 10 lakhs and less than 1 crore will be under the medium risk and more than 1 crore transaction on a single day will be high risk category.
  - The High Networth Clients account having turnover of more than 5 crores per day will be specifically monitored and separate watch will be kept on the flow of funds, securities, the trail of funds etc.
- ❖ Surveillance System for monitoring Transactions / suspicious transactions Monitoring and Reporting thereof.

On the basis of surveillance system as being implemented presently if we have doubt on certain transactions then due diligence shall be enhanced so as to know the genuineness of the transactions and the rationale behind the

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transactions and even after enhancing due diligence if doubt persists then such transactions shall be immediately discussed with top management and decision regarding the reporting the same shall be taken.

If the top management based on the alerts generated by surveillance system is satisfied that the transaction is of suspicious nature then the same shall be reported to relevant authority within prescribed time.



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## SURVEILLANCE

- SCRIP WISE SURVEILLANCE

A. Online Surveillance.

1. The surveillance team watches the online trades as they happen and extra ordinary volume in the particular scrip is immediately investigated by calling up the branch and asking for details of clients and as per the details made available, the clients previous purchase or sales transactions are looked into. We have locked major terminals from doing Z, T & TS Group trades & the same has to be done by a senior dealer at the main office.
2. We have allocated TWS Limits & Group limit for A, B1, B2, T, TS and Z group. The Surveillance Team gives limit in a very conservative manner, especially, in Z, T and TS group.
3. Any limit accretion requests are first investigated and then upon being satisfied with the bonafide of the trade as well as the client, limits are accordingly increased.
4. Since the same staffs are monitoring the trades daily, any pattern in trading / limit enhancement is reported once a week to the director for further investigation.

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### B. Offline Surveillance.

Since we discourage the trades on On-Line basis, they are further investigated at the time of generation of billing by the Billing Department & the scrips are scanned for the quantity traded vis-a-vis exchange volume on that day, the frequency of trade done by the client & see if a trend is discernible.

After due investigation (which normally takes two weeks), Surveillance Team reports to the Director its finding and thereafter such scrip is disabled for trading for that client / branch and in some cases on the whole network.