

Anti Money Laundering Policy

With Reference to the Guidelines for Market Intermediaries on Anti Money Laundering Standards Issued by SEBI

Money laundering (converting illegal money into legal money) is recognized world over as a threat to the financial systems and to the integrity and sovereignty of the countries. In this context SEBI, Stock & Commodity Exchanges and Depositories want intermediaries also (Share Broker, Sub Broker, Authorized Persons, Share Transfer Agent, Portfolio Manager, etc.) to comply with their circulars, guidelines, Prevention of Indian Money Laundering Act 2002 and the rules issued there under for prevention of money laundering and terrorist financing.

In terms of the Act we the intermediaries have to maintain and preserve for ten years (from the date of cessation of transactions) the records of the following transactions and to report them to specified authorities within the prescribed time schedules.

- All suspicious transactions whether or not made in cash and including inter-alia credits or debits into from any non monetary account such as demat account, Security account maintained by the registered intermediary.

We have to maintain and preserve the following information in respect of the transactions referred to earlier:

1. The nature of the transactions
2. The amount of the transaction and the currency in which it was denominated
3. The date on which the transaction was conducted
4. The parties to the transaction

(A List of sample suspicious transactions is given in the annexure.)

OUR POLICY

1. To adopt strictly the customer acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing (following strictly the guidelines issued by SEBI, Stock & Commodity Exchanges, Depositories and GOVT of INDIA).
2. To undertake customer due diligence measures to an extent that is sensitive to money laundering.
3. To develop staff members' awareness and vigilance to guard against money laundering and terrorist financing.
4. To regularly review the policies and procedures followed in this regard and change or add that is required depending upon the needs.

PROCEDURES

With regard to the policy for acceptance of clients we shall ensure that:

- A. No account is opened in fictitious / benami name on an anonymous basis.
- B. Details such as registered office address, correspondence address, other address, name of business activity, trading turnover, manner of making payment etc. are thoroughly checked on an ongoing basis.
- C. Clients are classified as low, medium and high risk clients.
- D. Higher degree of due diligence and regular update of KYC profile is exercised and done.

Anti Money Laundering Policy

E. We collect all documents and information from clients as per guidelines received from SEBI, Stock & Commodity Exchanges and Depositories.

F. No account is opened when we are not able to identify the client or there is no co-operation from the client in providing full information or information provided is suspected to be non-genuine.

G. Evaluation is done to find out whether there is any suspicious trading and to decide whether to freeze or close the account.

H. No securities or money are returned if they are from suspected suspicious trading.

I. No client having criminal background or banned in any other manner in terms of criminal or civil proceedings by any enforcement agency worldwide opens an account with us.

J. We collect full information about clients from the date of opening the account till the account is continued, periodically.

K. We adopt enhanced due diligence process for higher risk categories of customers, such as special categories of customers as under:

1. Non resident clients
2. High net worth clients
3. Trusts, charities, NGOs and organizations receiving donations
4. Companies having close family share holdings or beneficial ownership
5. Politically exposed persons of foreign origin
6. Current / Former Heads of State and senior high profile politicians and connected persons
7. Clients in high risk countries
8. Non face to face clients
9. Clients with dubious reputation

We exercise customer due diligence as under:

A. By obtaining sufficient information to identify and verify who beneficially own or control securities account / control the client.

B. By verifying the customer's identity using reliable independent source, data, document etc.

C. By conducting an ongoing due diligence and scrutiny throughout the course of business relationship to ensure that the transactions conducted are genuine.

REPORTING

All suspicious transactions identified by anyone in branch or in head office are to be reported immediately to the Principal Officer at head office, by means of a private and confidential letter for scrutiny and for taking appropriate action.

Under no circumstances the matter under investigation process is to be revealed to the clients concerned.

Anti Money Laundering Policy



Principal Officer will give appropriate directions depending upon the nature and background of transactions to the branch officials concerned.

In short all staff should be alert and vigilant enough to identify if there are any abnormal transactions taking place in their area of operations and to report the same to Principal Officer, Anti-Money Laundering Cell at the Head Office and seek guidance.

For detailed information, refer to:

1. NSE investigation Department circular no. NSE/INVG/2006/09 dated 25-01-06
2. SEBI circular no. ISD/CIR/RR/AML/1/06 dated 18-01-06
3. NSE circular no. NSE/INVG/2006/33 dated 24-03-06
4. Prevention of Money Laundering Act 2002

We should also refer to the circulars issued by Stock & Commodity Exchanges and Depositories from time to time.

ANNEXURE

SUSPICIOUS TRANSACTIONS

A suspicious transaction means a transaction whether or not made in cash which to a person acting in good faith:

- A. Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime, or
- B. Appears to be made in circumstances of unusual or unjustified complexity, or
- C. Appears to have no economic rationale or bonafide purpose.

Illustrative Examples of Suspicious Transactions

1. Clients not cooperating in giving documents
2. Source of funds not clear or inconsistent with business activity
3. Substantial increase in business without apparent cause
4. Transfer of funds to unrelated third parties or accounts
5. Buying and selling of illiquid shares or securities
6. Submission of false documents
7. One person introducing large numbers of clients
8. Accounts opened by others for different persons
9. Insider buying or selling of shares
10. Extremely unusual profits or repeated losses
11. Trading patterns indicating adverse features

Anti Money Laundering Policy



CIRCULAR LETTER

Date: 01-08-2009

Subject:

Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act 2002 and rules framed thereunder.

We trust that you are aware of the various provisions under Anti Money Laundering Act and our obligations as security market intermediaries under that Act.

Please note that detailed circulars were issued on:

- 21.06.2006
- 14.12.2006

Our group companies policy framed thereto is available on our website.

In order to make ourselves more familiar with Anti Money Laundering Act provisions we provide brief procedures to be followed while dealing with client accounts and abnormal trade transactions.

What is Money Laundering?

Money laundering refers to converting proceeds of illegal or criminal activities into legal money through one or more transactions using the financial system.

Example:

Routing stolen money or ransom received for holding a person captive through the financial system.

Who is a Money Launderer?

Any person who directly or indirectly attempts to indulge, knowingly assists, or is involved in any process connected with proceeds of crime and projects it as legitimate property.

Need for Anti-Money Laundering Measures

International initiatives to combat drug trafficking, terrorism, organized crime and other serious offences require financial institutions including share broking firms and depository participants to establish strong internal control systems to prevent money laundering and terrorist financing.

Basic Requirements Under Law

1. Establish systems for identifying, monitoring and reporting suspicious money laundering or terrorist financing transactions to law enforcement authorities.
2. Maintain and preserve records for ten years from the cessation of transactions.

Anti Money Laundering Policy

Records to be maintained include:

- Nature of transaction
 - Amount and currency
 - Date of transaction
 - Parties involved in transaction
-

Important Guidelines

1. Identify and verify beneficial ownership and control.
 2. Conduct ongoing due diligence and monitoring throughout the business relationship.
 3. Follow proper Know Your Customer (KYC) procedures and classify customers into low, medium and high-risk categories.
-

Classification of Clients

Low Risk Clients

Examples:

- Salaried individuals
- Government companies

These clients have easily identifiable sources of wealth.

Medium Risk Clients

Examples:

- Real estate business firms
- Consultants
- Interior decorators
- Automobile workshops

Business turnover and financial standing can generally be assessed.

High Risk Clients

Examples:

- Non-resident clients
- Trusts
- Non-face-to-face customers

Anti Money Laundering Policy



Their sources of income may not be easily identified.

Exceptional / Very High Risk Clients

Examples:

- Persons or entities having cases filed against them by police, income tax authorities, enforcement directorate, etc.

Opening and monitoring such accounts requires special attention and frequent scrutiny.

What are Suspicious Transactions?

A suspicious transaction is one that:

- A. Gives reasonable ground of suspicion that it may involve proceeds of crime.
 - B. Appears unusually complex or unjustified.
 - C. Appears to have no economic rationale or bona fide purpose.
-

Broad Categories of Suspicious Transactions

Identity of Client

- False identification documents
- Unverified identification documents
- Non-face-to-face clients
- Doubt regarding beneficial ownership
- Similar names to established business entities

Suspicious Background

- Suspicious background or links with known criminals
-

Multiple Accounts

- Large number of accounts having a common account holder, introducer or authorized signatory without rationale
 - Unexplained transfers between multiple accounts
-

Anti Money Laundering Policy



Activity in Accounts

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with declared business
- Accounts used for circular trading

Circular Trading System (CTS)

The Circular Trading System (CTS) is a market-neutral trading system that remains continuously in the market. It automatically takes long positions when prices rise and short positions when prices fall. Stops act as reversal points.

Nature of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Source of funds doubtful
- Possible insider trading
- Investment proceeds transferred to third parties
- Transactions reflecting likely market manipulations

-
- Suspicious off-market transactions

Value of Transactions

- Value just below reporting threshold amounts
 - Large overseas transfers for making payments
 - Transactions inconsistent with financial standing
 - Inconsistency in payment patterns
 - Block deals not at market price
 - Artificially inflated or deflated prices
-

Anti Money Laundering Policy

Action in Case of Suspicious Transactions

If any Broker, Sub-Broker or staff member finds a transaction prima facie suspicious:

- It must be reported immediately to the Principal Officer (AML) at Head Office.
- Reporting should be done in manual or electronic format.
- Reporting should not cause inconvenience or embarrassment to the client.

Conclusion

Money laundering in any form is an offence under law. As securities market intermediaries, it is our responsibility to:

- Be familiar with AML laws
- Follow all regulatory guidelines
- Adhere strictly to KYC procedures
- Remain vigilant regarding suspicious activities
- Report suspicious transactions confidentially

Contact Information

Principal Officer

EMC Palaniappan
Phone: 9381003412
Email: pal@chona.com

Designated Director

Ishta Palaniappan
Phone: 9940689982
Email: ishta@chona.com

Compliance Officer

R.Jaishankar
Phone: 9841340343
Email: invcomp@chona.in

CUSTOMER ACCEPTANCE POLICIES AND PROCEDURES

Guidelines for Staff Members Regarding:

- a. Policy for acceptance of clients
 - b. Procedure for identifying clients
 - c. Transaction monitoring and reporting with special reference to PML Act 2002
-

INTRODUCTION

It is important to know clients completely before opening any account such as:

- Demat accounts
- Trading accounts
- Commodity accounts
- Currency trading accounts

Continuous knowledge of the customer throughout the business relationship is essential to:

- Safeguard both parties
 - Avoid financial loss or risk
 - Ensure transactions remain genuine and normal
-

Beneficial Owner

A beneficial owner refers to the natural person who ultimately owns, controls, or influences a client and/or on whose behalf a transaction is conducted.

Who is a Customer?

A customer is:

- a. A person or entity maintaining an account with us.
 - b. A beneficial owner on whose behalf the account is maintained.
-

Eligible Customers

Customers who fulfill all KYC requirements and whose accounts are approved by authorized officials.

Anti Money Laundering Policy

Accounts That Cannot Be Opened

- a. Persons with known criminal backgrounds or banned by enforcement authorities.
 - b. Persons whose identity cannot be verified.
 - c. Prospective clients unwilling to provide complete information.
 - d. Anonymous, fictitious, or nickname-based accounts.
 - e. Clients providing non-genuine information.
-

Important Checks Before Opening Accounts

We must ensure that proposed customers are not included in lists of individuals or entities subject to sanctions, freezing of accounts, or denial of financial services initiated by the United Nations Security Council.

Existing customers should also be screened regularly.

If any account resembles a sanctioned individual or entity:

- Details must be reported to the Principal Officer.
 - Information must be forwarded to Government authorities within 24 hours.
 - Suspicious transaction reports must be filed with FIU-IND.
-

Classification of Customers Based on Risk

Risk assessment should consider:

- Customer location
 - Background
 - Nature of business
 - Turnover
 - Source of funds
-

Low and Medium Risk Customers

Examples:

- Salaried clients
 - Professionals
 - Government companies
 - Established business firms
-

Anti Money Laundering Policy



High Risk Customers

Examples:

- Non-resident clients
 - Trusts
 - Non-face-to-face customers
-

Very High Risk Customers

Examples:

- Politically Exposed Persons (PEPs)
 - Clients investigated by police or enforcement agencies
 - High net-worth clients
 - Clients with dubious reputation
-

Clients of Special Category (CSC)

1. Non-resident accounts
2. High net-worth clients
3. Trusts, charities and NGOs
4. Companies with close family shareholdings
5. Politically Exposed Persons
6. Clients in high-risk countries
7. Non-face-to-face clients
8. Clients with doubtful reputation

OTHER FORMALITIES TO BE OBSERVED AT THE TIME OF OPENING NEW ACCOUNTS

Mandatory Requirements

A. KYC and Registration Documents

Obtain Know Your Client (KYC) documents, Client Registration Forms and Broker-Client Agreements duly completed and executed without any waiver.

Anti Money Laundering Policy



B. PAN Verification

- Valid PAN Card must be obtained for all accounts.
 - PAN genuineness must be verified through the Income Tax website.
 - Exemptions may apply to Government departments and court-appointed officials upon documentary proof.
 - Verify through SEBI website that the client is not prohibited from opening trading accounts.
-

C. Photographs

- Obtain recent photographs of all clients.
 - For companies and institutions, verify authorization of representatives acting on behalf of the entity.
-

D. Verification of Documents

- Carry out in-person verification of all submitted documents with originals.
 - Certified copies shall be recorded and maintained safely.
-

E. Personal Discussions

- Conduct personal discussions with clients.
 - Enhanced discussions shall be conducted for high-risk and very high-risk clients.
 - Politically Exposed Persons (PEPs) require enhanced scrutiny and prior approval from senior executives.
-

F. Legal Competency

Ensure that clients are legally competent to open and operate accounts under applicable laws.

G. Purpose of Relationship

Obtain information regarding the purpose and intended nature of the business relationship.

H. Beneficial Ownership

Identify and verify the beneficial owner and take reasonable steps to establish ownership and control.

Anti Money Laundering Policy



KEY ASPECTS IN CLIENT IDENTIFICATION

The organization must know:

- Customer name
 - Beneficial owner details
 - Permanent address
 - Residential/Official address
 - Correspondence address
-

Proof of Identity Documents

One certified copy of any officially valid document:

- PAN Card
 - Passport
 - Voter ID
 - Driving Licence
 - Any other SEBI/NSE approved document
-

Proof of Address Documents

- Bank Passbook or Statement
- Demat Account Statement
- Ration Card
- Telephone Bill
- Driving Licence
- Electricity Bill
- Voter ID
- Passport

Telephone number and email address should also be recorded.

Apart from common documents, client-specific documents shall also be obtained depending upon the type of account.

Anti Money Laundering Policy

ACCOUNTS OF INDIVIDUALS

Required documents:

- A. Client Registration Form (KYC)
 - B. Recent photograph with signature
 - C. Proof of bank account
 - D. Proof of Demat account
 - E. Initial security deposit cheque copy
 - F. Proof of financial status such as:
 - Income Tax Returns
 - Business proof
 - Professional proof
-

NRI ACCOUNTS (INDIVIDUALS)

Requirements

- a. NRE/NRO Account with designated bank.
 - b. RBI approval wherever applicable.
 - c. Compliance with RBI exchange control regulations.
 - d. Proof of overseas and Indian address.
 - e. Valid Power of Attorney if applicable.
-

ACCOUNTS OF HUF AND PROPRIETARY FIRMS

Requirements:

- Documents applicable to individual accounts
 - Signature and seal of Karta or Proprietor
 - Proof of identity of Karta/Proprietor
 - Verification of business nature and financial status
-

Anti Money Laundering Policy

ACCOUNTS OF PARTNERSHIP FIRMS

Additional requirements:

- a. PAN, proof of identity and address for firm and partners
 - b. Registration certificate
 - c. Partnership deed
 - d. KYC signed by all partners
 - e. Verification of business nature and financial status
-

ACCOUNTS OF LIMITED COMPANIES

Required Documents:

- A. Certificate of Incorporation
- B. Certificate to Commence Business
- C. Memorandum and Articles of Association
- D. Board Resolution for opening and operation of account
- E. Power of Attorney if applicable
- F. Recent photographs of directors and authorized persons
- G. Balance Sheets for three years
- H. Documents signed with company seal
- I. Net Worth Certificate
- J. List of Directors with DIN and shareholding details

Certified copies are acceptable after verification with originals.

ACCOUNTS OF ELIGIBLE TRUSTS AND SOCIETIES

Required documents:

- a. Trust deed or society rules and regulations
 - b. Registration certificate
 - c. Resolution of managing body
 - d. Certified copy of Power of Attorney
 - e. Identity proof of trustees and authorized persons
 - f. Proof of legal existence
-

Anti Money Laundering Policy

RELIANCE ON THIRD PARTY FOR CLIENT DUE DILIGENCE (CDD)

The organization identifies clients directly and does not rely on third-party assistance for Customer Due Diligence.

MONITORING OF TRANSACTIONS

- a. Regular monitoring of client transaction profiles.
 - b. Attention to unusually large or complex transactions.
 - c. Scrutiny of high account turnover inconsistent with balance size.
 - d. Monitoring accounts frequently exceeding limits or margins.
 - e. Collection and updation of KYC forms annually.
 - f. Verification of financial status annually.
 - g. Ongoing familiarity with customer profile and business.
 - h. Continuous due diligence and examination of transactions.
 - i. Internal auditors and compliance cell to review transactions periodically.
 - j. Vigilance against money laundering and terrorist financing activities.
-

MAINTENANCE OF RECORDS OF TRANSACTIONS

Under the Prevention of Money Laundering Act, records shall be maintained for:

- a. Transactions involving forgery of valuable security or documents.
 - b. Suspicious transactions including credits or debits from non-monetary accounts.
-

SUSPICIOUS TRANSACTIONS

A suspicious transaction includes any attempted transaction whether or not made in cash which:

- A. Gives rise to reasonable suspicion of proceeds of crime.
 - B. Appears unusually complex or unjustified.
 - C. Appears to lack economic rationale or bona fide purpose.
 - D. Suggests financing of terrorism.
-

Examples of Suspicious Transactions**Identity of Client**

- False identification documents
 - Unverified identification documents
 - Non-face-to-face clients
 - Doubt regarding beneficial owner
 - Similar account names to business entities
 - Returned welcome kits or statements
-

Suspicious Background

- Suspicious links with known criminals
-

Multiple Accounts

- Multiple accounts with common holder or address
 - Unexplained transfers between accounts
-

Activity in Accounts

- Unusual transaction patterns
 - Sudden activity in dormant accounts
 - Transactions inconsistent with business profile
 - Circular trading activities
-

Nature of Transactions

- Unusual complexity
 - No economic rationale
 - Doubtful source of funds
 - Insider trading indications
 - Transfers to third parties
 - Market manipulation indicators
 - Suspicious off-market transactions
-

Anti Money Laundering Policy



Value of Transactions

- Transactions below reporting threshold
 - Large overseas transfers
 - Transactions inconsistent with financial standing
 - Artificially inflated or deflated prices
-

TRACKING AND REPORTING SUSPICIOUS TRANSACTIONS

Staff members must:

- Monitor and identify suspicious activities
- Immediately notify the Principal Officer
- Submit detailed reports confidentially
- Continue normal dealings until instructed otherwise
- Avoid disclosing investigations to clients

Principal Officer shall report suspicious transactions to FIU-IND within prescribed timelines.

FIU-IND Address

Director, FIU-IND
Financial Intelligence Unit – India
6th Floor, Hotel Samrat
Chanakyapuri
New Delhi – 110021

Website: <http://fiuindia.gov.in>

RECORD KEEPING AND RETENTION OF RECORDS

The organization shall maintain records of:

- Beneficial owners
 - Transaction volumes
 - Origin of funds
 - Nature of transactions
 - Margins held
 - Securities retained
 - Parties involved
-

Anti Money Laundering Policy

Retention Period

Records shall be maintained in hard and soft copies for:

- Five years from the date of transaction
 - Five years from cessation of relationship with client
 - Longer periods wherever investigations are ongoing
-

INVESTOR EDUCATION

Necessary explanations shall be provided to investors regarding collection of documents under AML and KYC requirements.

REVIEW OF POLICY

The policy shall be reviewed whenever amendments are issued by:

- SEBI
- Stock Exchanges
- Depositories
- Government authorities

Updated procedures shall be communicated to staff and clients wherever necessary.

REFERENCE CIRCULARS

- SEBI Circular ISD/AML/CIR-1/2008 dated 19.12.2008
- NSE Circular NSE/INVG/2009/13342
- NCDEX/COMPLIANCE-006/2009/334
- MCX/COMP/488/2009
- NSE/INVG/13784/2009
- MCX-SX/COMPY/170/2009
- SEBI Circular CIR/ISD/AML/3/2010
- SEBI Circular CIR/MIRSD/1/2014