

INVESTOR EDUCATION ON ANTI MONEY LAUNDERING
(SEBI CIRCULAR ON ANTI MONEY LAUNDERING- ISD/AML/CIR-1/2010
February 12, 2010)

Dear Sir/Madam,

As per Exchange Circular No. 453 dated 17/02/2010, download Ref. No: NSE/INVG/14117, there are certain area relating to Anti Money Laundering, that intermediary (Stock Broker) needs to highlight and educate the clients for better transparency between the Clients and Stock Brokers and regulator requirements.

The points/ area covered as under is just an outline of the Topic and reference to the Circular mentioned above would give a better understanding.

Points covered:

- 1. PMLA Act & Anti Money Laundering Standards**
- 2. Client Due Diligence (CDD)**
- 3. Client of Special Category**
- 4. Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002.**

1. PMLA Act & Anti Money Laundering Standards: The Prevention of Money Laundering Act, 2002 (**PMLA**) was brought into force with effect from 1st July 2005. according to the Act,

- Intermediaries shall have to maintain a record of all the transactions; the nature and such transactions include:
 - a. All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
 - b. All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.

- c. 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.

It is mandated that intermediaries shall draft policies and procedure on to combat the money laundering activity to the extent possible on CDD, CSC and monitoring client transactions as explained here under:

2. Client Due Diligence (CDD): CDD forms a critical part of AML policy.

Due diligence has to be done at the time acceptance of clients, identifying the clients, monitoring and Reporting especially Suspicious Transactions Reporting (STR). **There has to be proper transparency of information from the client's end as well as Stock Broker.**

CDD measures are to be followed so as to:

- Obtain sufficient information in order to identify persons who beneficially own or control the securities account
- Verify the client's identity using reliable, independent source documents, data or information;
- Conduct ongoing due diligence and scrutiny

3. Client of Special Category: Below mentioned list is an illustrative list of CSC:

- i. Non resident clients,
- ii. High net-worth clients,
- iii. Trust, Charities, NGOs and organizations receiving donations,
- iv. Companies having close family shareholdings or beneficial ownership,
- v. Politically exposed persons (PEP)
- vi. Companies offering foreign exchange offerings,
- vii. Clients in high risk countries
- viii. Non face to face clients,
- ix. Clients with dubious reputation.

5. Obligations of securities market intermediaries under Prevention of Money Laundering Act, 2002:

Implementation of AML/CFT measures requires intermediaries 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. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Intermediaries should prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT Programme.

Thus this is just an attempt made by Darashaw & Co. Pvt Ltd to bring the key aspects of PMLA 2002, to your notice and fling some light on the key points of the Act.