

OSWAL SHARES AND SECURITIES LTD

INTERNAL CONTROL POLICIES AND PROCEDURES

(As envisaged under the Prevention of Money Laundering Act, 2002)

Preface:

This document shall be considered as official guidelines, policies and procedures to be followed by OSWAL SHARES & SECURITIES LTD.

The objective of this document is to effectively implement the provisions of Prevention of Money Laundering Act, 2002 (PMLA) and all Rules and Regulations made there under, with a view to discharge its obligations under the said Act, Rules and Regulations. This document may be amended from time to time in line with future amendments under the said Act, Rules and Regulations.

Manner of usage:

This document shall be used as guidelines and reference by the key personnel in charge of the activities namely client identification and introduction, Surveillance, record keeping and the personnel in charge of executing and authorizing the day to day transactions apart from the business associates such as Sub-Brokers, Remissers, Authorised Persons, Franchisee, Channel Partner etc. Who are involved in the activities as mentioned above. The Principal Officer (PO) shall provide the copy of this document to all such existing as well as new key Personnel and Business Associates from time to time and explain the contents in the context of PMLA and their responsibilities in the regard.

Introduction to PMLA:

Objective: The objective of PMLA is to discourage and identify any money laundering and terrorist financing activities. The PMLA has come into force as result of international efforts to combat the terrorism and allied activities such as drug trafficking and other organized and serious crimes.

Nodal Agency: Financial Intelligence Unit-India (FIU-IND), set up by the Government of India as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. FIU-IND is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. The contact details of FIU-IND are as under:

Address

Director, FIU-IND

Financial Intelligence unit-India

6th Floor, Hotel Samrat

Kautilya Marg, Chanakyapuri

New Delhi – 1100021, India

Telephone

91-11-2687473 (For Queries)

Fax – 91-11-26874459

Email

feedbk@fiuindia.gov.in (For feedback)

querv@fiuindia.gov.in (For general queries)

Applicability: The provisions of the PMLA are applicable to every banking company, Financial institution (which includes chit Fund Company, a co-operative bank, a housing Finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992)

Obligations under PMLA: All those entities who are covered under PMLA Shall;

- Designate one person as 'Principal Officer' and intimate his name address and contact details to FIU-IND
- Evolve an internal control mechanism to verify and maintain the records of identity of the clients as prescribed in the Rules notified and PMLA.
- Evolve an internal control mechanism to maintain the records, and report to the FIU-IND, all the transactions: the nature and value of which has been prescribed in the Rules notified under PMLA.

Nature and Value of Transactions: As per the provisions of PMLA, the nature and value of transactions, which are required to be reported and for which the record are to be maintained in the prescribed format are as under;

- A. All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
- B. All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
- C. All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place within a month;
- D. All Suspicious transactions whether or not made in cash and including; interalia credits or debits into from any non monetary account such as demat account, security account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

"Suspicious transaction" means a transaction whether or not made in cash which, to a person acting in good faith-

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or

- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to have no economic rationale or bonafide purpose; or
- give rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;

Board Categories of reason of suspicion and examples of suspicious transactions for an intermediary are indicated as under:

Identity of client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non-face to face client
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other 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 with no rationale
- Unexplained transfers between multiple accounts with no rationale
- Activity in Accounts
- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business
- Account used for circular trading

Nature of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Source of funds are doubtful
- Appears to be case of insider trading
- Investment proceeds transferred to a third party
- Transactions reflect likely market manipulations
- Suspicious off market transactions

Value of Transactions

- Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Large sums being transferred from overseas for making payments
- Inconsistent with the client's apparent financial standing
- Inconsistent in the payment pattern by client
- Block deal which is not at market price or prices appear to be artificially inflated/deflated

Role of the Principal Officer:

It shall be the responsibility of principal Officer to ensure that the organization's obligations under the PMLA are discharged in effective and timely manner.

The Principal Officer Shall;

- Provide the copy of this documents, explain its content and educate the key personnel heading the departments namely;
 - Client Introductions, Identifications and Account opening dept.
 - Accounts Dept.
 - Clearing & Settlement Dept.
 - Surveillance & Risk Management Dept.
 - Depository Service Dept.
 - In Charge officer of Branch/ Frenchise/Remisser/Authorised Person office.
- Provide the copy of this document to Sub-brokers, explain its contents and educate them about their responsibilities under PMLA and advised to register name of their P.O under intimation to us.
- Maintain the record of sub-broker's P.O and branh/Frenchise/AP's Contact person who is designated to monitor the requirements under PMLA at the respective business locations.
- Evolve the mechanism to get the details of transactions required to be reported under PMLA and ensure the timely reporting and maintain the records of such transactions.

Procedures to be followed:

- KYC procedures as prescribed by SEBI/Stock Exchange/Depositories are to be followed while ascertaining the identity of the clients and opening the new accounts.
- While opening the depository and trading account the title of the account shall be maintained in the same style and pattern as it appears on the PAN Card.
- At the time of account opening the name of the client may be searched through the internet search engines and the results. If any may be reviewed in the context of PMLA guidelines.
- Identity Prof of Banking Account and Demat Account shall be obtained before entering the details of bank and demat account in the client master data base.
- Back office software shall give alert and restrict the entry of received cheques and demat deliveries if source details is not matching with the master records.
- Deliveries of demat shares shall be given only to the demat account ID registered in the master records. Payment of funds shall be given only be account payee cross cheques in favour of the account holder.

- Third party payments of funds and delivery shall not be accepted or given.
- No cash shall be received from or paid to the clients towards the settlements obligations except under the abnormal and special circumstances and with the written permission of any of the director.
- In case of payment being received by way of demand draft, pay order or any other mode where the identity of the account holder effecting the payment is not available, such payment instrument shall be accepted along with the covering letter from the person tendering the payment.
- The personnel in charges of processing day to day transactions in the key departments mentioned in this document shall report the details of those transactions which falls under the category or appears to be of the nature as mentioned above in this document.
- The recruitment of the new personnel at the key positions shall be confirmed after the verification of the document of identity, verification of address and reference from the known or reputed person.
- The assignment may be given to the internal and/or Statutory Auditors to review the appropriateness and adequacy of the internal control policy and procedures in the context of the size and nature of our business.
- The Principal officer shall periodically generate and review the exception report by processing the transaction and master database with a view to filter out the clients and transactions which may fall under the category and nature as mentioned in this document.
- The Principal Officer shall periodically visit the website of FIU-IND at fiuindia.gov.in and keep himself update about the amendments in Rules, Regulations and manner and format of reporting requirements and PMLA. The Principal officer shall also take the necessary steps to update and amend the policy and procedures in the context of changed Rules and Regulations and in the context of changed business circumstances from time to time.