

POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING

Reviewed on July-2021

Introduction

The Prevention of Money Laundering Act, 2002 and the rules made hereunder imposed an obligation on banks/Financial institutions/ intermediaries/ registrars under SEBI Act, 1992 to verify the identity of clients, maintenance of records and furnishing information to Director, FIU-IND. Intermediaries defined under section 12 of SEBI Act, 1992 includes stock broker and sub broker also and **Nikhil Commodity & Derivatives Pvt. Ltd.** being a stock broker needs to adhere to the same.

It is the policy of the **Nikhil Commodity & Derivatives Pvt. Ltd.** to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. The company also exercises clients due diligence and define and segregate clients as special category and in accordance to their risk profile. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

Principal Officer and Designated Director

Nikhil Commodity & Derivatives Pvt. Ltd. has designated **Mr. Mahesh Bhandiya** as the Principal Officer and **Mr. Nirav Desai** Designated Director for its Anti-Money Laundering Program, with full responsibility for the AML program. Both Principal Officer and Designated Director have long-standing experience in the capital market, and are qualified by experience, knowledge and training. The duties of the Principal Officer will include monitoring the **Nikhil Commodity & Derivatives Pvt. Ltd.** compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU - IND).

Nikhil Commodity & Derivatives Pvt. Ltd. has provided the FIU with contact information for the Principal Officer and Designated Director, including name, title, mailing address, e-mail address, telephone number and facsimile number. **Nikhil Commodity & Derivatives Pvt. Ltd.** will promptly notify FIU of any change to this information.

FIN net Gateway

All reports pertaining to financial transactions under Prevention of Money laundering Act, 2002 are required to submit through the FINnet Gateway (FINgate) Portal, which is designed as a comprehensive interface between the reporting entities and FIU-IND. **Nikhil Commodity & Derivatives Pvt. Ltd.** is required to register themselves as 'reporting entity'. Further member is also required submit the details of Principal Officer & designated director through FINnet gateway.

Client Due Diligence (CDD)

The main aspect of this policy is the client due diligence process which means identifying the client and verifying his/her identity by using reliable, independent source documents, data or information. **Nikhil Commodity & Derivatives Pvt. Ltd.** obtains sufficient information necessary to establish, to their satisfaction, the identity of each new client, whether regular or occasional. To conduct ongoing due diligence and scrutiny of the account/ client to ensure that the transaction conducted are consistent with the clients' background/ financial status, its activities and risk profile. **Nikhil Commodity & Derivatives Pvt. Ltd.** adopted appropriate CDD measures comprising of:

- To obtain sufficient information in order to identify persons who will beneficially own or control the account and whose behalf a transaction is being conducted.
- To identified person which are politically exposed and to provide additional due diligence with respect to same.
- To conduct ongoing due diligence and scrutiny throughout the course of business relationship to ensure that trans action conducted are consistent with Company's knowledge of clients, its business and risk profile and taking into account when necessary, the clients source of funds.
- To update all documents, data or information of all clients and beneficial owners collected under CDD process.
- All the documents obtain from the client will be updated on an annual basis.

CLIENT ACCEPTANCE POLICY

Nikhil Commodity & Derivatives Pvt. Ltd. needs to follow the following policy and procedure in order to identify the types of customers that are likely to pose a higher than the average risk of money-laundering or terrorist financing. By establishing these policies and procedures, the organization will be in a better position to apply customer due diligence on a risk sensitive basis.

Accordingly, the following safeguards are required to be followed while accepting the clients.

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) Know Your Client form to be filled completely. Special attention is to be given to items which are marked mandatory.
- c) Documents submitted for our records should be diligently verified with the originals. More importantly PAN card, proof of address, proof of identity needs to be verified with the originals. Further, details of PAN card should be compared with the income tax web site.

e) The client name and the names of directors and shareholders to be verified at various databases like SEBI debarred entity lists, FATF Statements, Exchange database of regulatory actions against various entities as may be available from <http://www.un.org>

f) No client account to be opened where the important / mandatory details are not furnished by the client even after repeated follow ups. Further client account not to be opened in cases where information provided to us is suspected to be non genuine, there is a perceived non-cooperation of the client in providing full and complete information specially in respect of mandatory and / or important information.

g) Documentation requirement and other information to be collected in respect of different classes of clients would depend on the perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.

j) To ensure that the client's identity does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings.

k) Special attention to be given to clients who tend to open multiple accounts in various combinations of its first name, surname and middle name.

Client Identification Procedure (CIP)

Client Identification and Verification:

At the time of opening an account or executing any transaction with it, **Nikhil Commodity & Derivatives Pvt. Ltd.** will verify and maintain the record of identity and current address or addresses including permanent address or addresses of the client, the nature of business of the client and his financial status as under:

Constitution of Client	Proof of Identity	Proof of Address	Others
Individual	<ol style="list-style-type: none"> 1. PAN Card (Compulsory) 2. Voter Identity Card 3. Driving License 4. Passport 	<ol style="list-style-type: none"> 1. Copy of Bank Statement 2. Passport 3. Driving License 4. Voter Identity Card 5. Ration Card 6. Rent Agreement 7. landline Telephone Bill (not older than 2 months) 8. Copy of Electricity Bill (not older than 2 months) 	<ol style="list-style-type: none"> 1. Proof of Identity and Address of the Introducer

		9. Banker Verification (Scheduled Commercial Bank only) 10. Aadhar	
Company	<ol style="list-style-type: none"> 1. PAN Card (Compulsory) 2. Certificate of incorporation 3. Memorandum and Articles of Association 4. Resolution of Board of Directors 5. Shareholding Pattern 	<ol style="list-style-type: none"> 1. Copy of Bank Statement 2. Rent Agreement 3. landline Telephone Bill (not older than 2 months) 4. Copy of Electricity Bill (not older than 2 months) 5. Banker Verification (Scheduled Commercial Bank only) 6. Aadhar 	<ol style="list-style-type: none"> 1. Proof of Identity and Address of the Directors/Others authorized to trade on behalf of the company 2. Proof of Identity and Address of the Introducer
Partnership Firm	<ol style="list-style-type: none"> 1. PAN Card 2. Registration certificate 3. Partnership deed 	<ol style="list-style-type: none"> 1. Copy of Bank Statement 2. Rent Agreement 3. landline Telephone Bill (not older than 2 months) 4. Copy of Electricity Bill (not older than 2 months) 5. Banker Verification (Scheduled Commercial Bank only) 6. Aadhar 	<ol style="list-style-type: none"> 1. Proof of Identity and Address of the Partners/Others authorized to trade on behalf of the firm 2. Proof of Identity and Address of the Introducer
Trust	<ol style="list-style-type: none"> 1. PAN Card 2. Registration certificate 3. Trust deed 	<ol style="list-style-type: none"> 1. Copy of Bank Statement 2. Rent Agreement 3. landline Telephone Bill (not older than 2 months) 4. Copy of Electricity Bill (not older than 2 months) 5. Banker Verification (scheduled Commercial Bank only) 	<ol style="list-style-type: none"> 1. Proof of Identity and Address of the Trustees/ others authorized to trade on behalf of the trust 2. Proof of Identity and Address of the Introducer

		6. Aadhar	
AOP/ BOI	<ol style="list-style-type: none"> 1. PAN Card 2. Resolution of the managing body 3. Documents to collectively establish the legal existence of such an AOP/ BOI 	<ol style="list-style-type: none"> 1. Copy of Bank Statement 2. Rent Agreement 3. landline Telephone Bill (not older than 2 months) 4. Copy of Electricity Bill (not older than 2 months) 5. Banker Verification (Scheduled Commercial Bank only) 6. Aadhar 	<ol style="list-style-type: none"> 1. Proof of Identity and Address of the Persons authorized to trade on behalf of the AOP/ BOI 2. Proof of Identity and Address of the Introducer

1. In-Person-Verification of client is to be carried out as required by rules and regulations. Details of the verification are mentioned on the account opening form.
2. Aadhar number of all clients to be obtained.
3. If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, **Nikhil Commodity & Derivatives Pvt. Ltd.** will not open the new account / will freeze the account.
4. All PAN Cards received will verified form the Income Tax/ NSDL website before the account is opened
5. **Nikhil Commodity & Derivatives Pvt. Ltd.** will maintain records of all identification information for five years after the account has been closed.
6. **Pre Activation Process:**
 Before activating any client for trading, company will follow below mentioned process to know any fictitious/ benami account (s) and verifying all key information provided by the client (s)
 - a. **Telephone Verification System (TVS):** A telephonic verification system has to put in place to verify client identity and verify all key information in client master.
 - b. **Welcome Letter:** After successfully opening a trading account, a system generated welcome letter containing all key information in client master will be sent directly at client communication address.

Risk Based Approach

Client Categorization:

Nikhil Commodity & Derivatives Pvt. Ltd. has to put in place parameters to categories the clients into high, medium and low risk clients. Given below are the parameters for risk categorization of clients:

High Risk Clients:

Nikhil Commodity & Derivatives Pvt. Ltd. may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk clients, especially those for whom the sources of funds are not clear. The examples of clients requiring higher due diligence may include:

1. Non Resident Indians.
2. High Net worth Individuals
3. Trust, Charities, NGOs and organizations receiving donations.
4. Politically Exposed Persons of foreign origin.
5. Firms with 'Sleeping Partners'
6. Current and former head of state, high profile politicians and connected persons (immediate family, close advisors and companies in which such individuals have interest or significant influence.)
7. Companies offering foreign exchange offerings.
8. Clients in high risk countries.
9. Non face to face customers.
10. Clients with dubious reputation as per public information available etc having Criminal backgrounds.
11. Persons in special categories apart from mentioned above.

The company shall take following additional due diligence with respect to high and medium risk clients as compare to low risk clients.

- I. Approval of management required at the time of opening of such high risk/ medium risk account
- II. Trading pattern is observed ongoing basis.
- III. Extra due diligences are carried out while accepting fund and securities from such high risk/ medium risk account.
- IV. Annual financial updation letters are sent to the clients along with change in KYC information
- V. In case if the client falls under SEBI debarred list after registration necessary action taken as per our PMLA policy.
- VI. Checking the trading pattern of their income according to their turnover.

Medium Risk Clients:

Clients that are likely to pose a higher than average risk to the company may be categorized as medium or high risk depending on client's background, nature and location of activity, country of origin, sources of funds and his client profile etc; such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
3. Clients who deal in intraday speculative transactions and whose turnover is not in line with financials declared.
4. Clients having close family shareholdings or beneficial ownership.
5. Clients whose cheques have been dishonored 3 times or more in the last 30 days.

Low Risk Clients:

Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile and their financials declared be categorized as low risk. Also who makes payment/delivery in time and follow the norms established by regulators and company. The illustrative examples of low risk clients could be salaried employees whose salary structures are well defined, people belonging to lower economic level of the society whose accounts show small balances and low turnover, Government Departments and Government owned companies, regulators and statutory bodies etc. In such cases, only the basic requirements of verifying the identity and location of the client shall be met.

Clients of Special Category:

Nikhil Commodity & Derivatives Pvt. Ltd. will always identify clients of special category which includes NRI, High Net worth clients, Trusts, Charities, Non-Government Organization, Companies having close family shareholdings, politically exposed persons, Companies offering foreign exchange offering, clients residing in high risk countries or countries active in narcotics productions etc, Non face to face clients and clients with dubious reputation as per public information available. High level client due diligence will be under taken for CSC.

Freezing of Assets

An asset lying in form of securities in clients DP account may be frozen if directed by any regulatory authority, for duration specified or until further notice is received to revoke such freeze instruction.

Enhanced Due Diligence

Financial Action Task Force (FATF) has advised a risk-based approach for determining the Enhanced Due Diligence required for the customer. As per the guidance the amount and type of information obtained, and the extent to which this information is verified, must be increased where the risk associated with the business relationship is higher

Accordingly, NCDPL shall exercise Enhanced Due Diligence for High Risk Customers which by obtaining following information:

- Additional identifying information from a wider variety or more robust sources and using the information to inform the individual customer risk assessment.
- Carrying out additional searches (for example, verifiable adverse media searches) to inform the individual customer risk assessment.
- Commissioning an intelligence report on the customer or beneficial owner to understand better the risk that the customer or beneficial owner may be involved in criminal activity.
- Verifying the source of funds or wealth involved in the business relationship to be satisfied that they do not constitute the proceeds from crime.
- Seeking additional information from the customer about the purpose and intended nature of the business relationship.
- Identify the beneficial owners of the customers.

Suspicious Transactions

Identification:—"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 proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to have no economic rationale or bona fide purpose; or
- gives rise to areas on able ground of suspicion that it may involve financing of the activities relating to terrorism;
- Clients based in high risk jurisdiction.
- Substantial increase in business without apparent cause.
- Transactions reflect likely market manipulations.
- Sudden activity in dormant accounts.

Monitoring Accounts For Suspicious Activity

The following kinds of activities are to be mentioned as activities which require further scrutiny and reported to the Principal Officer.

- transaction inconsistent with the normal pattern of the client's investment activity

- Sudden activity in dormant accounts;
- Clients making large transfers to a third party through off market transactions through DP Accounts;
- High value transactions.
- Large deals at prices away from the market
- Client scrip concentration
- Comparison of client turnover with client income.
- High trading activity in illiquid scrip
- Unusually large cash deposit made by client.

Any activities which require further scrutiny he or she will escalate the same to the Principal Officer for further investigation.

Reporting to FIU IND

For Cash Transaction Reporting:

All dealing in Cash that requiring reporting to the FIU IND will be done in the CTR format and in the matter and at intervals as prescribed by the FIU IND

For Suspicious Transactions Reporting:

The company shall make a note of Suspicion Transaction that have not been explained to the satisfaction of the Principal Officer and thereafter report the same to the FIU IND through Fin net gateway and within required deadlines. This will typically be in cases where the company know, suspect, or have reason to suspect:

- The transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any the transaction reporting requirement,
- The transaction is designed, whether through structuring or otherwise, to evade the any requirements of PMLA Act and Rules framed thereof
- The transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and the company know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
- The transaction involves the use of the **Nikhil Commodity & Derivatives Pvt. Ltd.** to facilitate criminal activity.

The company shall not base its decision on whether to file a STR solely on whether the transaction falls above a set threshold. The company file a STR and notify law enforcement of all transactions that raise an identifiable suspicion of criminal, terrorist, or corrupt activities.

All STRs will be reported quarterly to the Board of Directors, with a clear reminder of the need to maintain the confidentiality of the STRs

The company will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the PMLA Act and Rules thereof.

AML Record Keeping

A .STR Maintenance and Confidentiality

The company will hold STRs and any supporting documentation confidential. The company will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a STR. The company will refuse any requests for STR information and immediately tell FIU IND of any such request so received. The company will segregate STR filings and copies of supporting documentation from other **Nikhil Commodity & Derivatives Pvt. Ltd.** books and records to avoid disclosing STR filings. The company's Principal Officer will handle all requests or other requests for STRs.

b. Responsibility for AML Records and STR Filing

Principal Officer will be responsible to ensure that AML records are maintained properly and that STRs are filed as required.

c. Records Required

As part of our AML program, our principal officer will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. The company will maintain STRs and their accompanying documentation for at least five years.

Maintenance of records

The Principal Officer will be responsible for the maintenance for following records:

- all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
- Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later 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;
- all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- All suspicious transactions whether or not made in cash. 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
- gives rise to areas on able ground of suspicion that it may involve financing of the activities relating to terrorism

The records shall contain the following information:

- the nature of the transactions;
- the amount of the transaction and the currency in which it was denominated;
- the date on which the transaction was conducted; and
- The parties to the transaction.
- The company shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

Periodicity of Review of the Policy

The aforesaid AML policy shall be reviewed periodically by Board with regard to testing its adequacy to meet the compliance requirements of PMLA 2002 and relevant circulars issued by Regulatory/ Statutory bodies.

Risk Management

- The KYC policies and procedures of the company covers management oversight, systems and controls, segregation of duties, training and other related matters. For ensuring effective implementation of the company's KYC policies and procedures, the officials shall explicitly allocate responsibilities within the branch. The sub broker/officials shall prepare risk profiles of all their existing and new clients and apply Anti Money Laundering measures keeping in view the risks involved in a transaction, account or brokering/business relationship.
- Training encompassing applicable money laundering laws and recent trends in money laundering activity as well as the company's policies and procedures to combat money laundering shall be provided to all the staff members of the broker periodically in phases.
- Annual ongoing training program for employees is taken so that members of the staff are adequately trained in AML and CFT (Combating Financing of Terrorism) procedure & if major changes in PMLA policy.

- TheAccountsDepartmentshallbeempoweredtoprescribethresholdlimitsfor a particular group of accounts and the Sub broker/officials shall pay particular attention to the transactions which exceed these limits. The threshold limits shall be reviewed on regular intervals and changes, if any, conveyed to Sub broker/officials for monitoring.

Hiring of Employees

There shall be adequate screening procedures in place to ensure high standards when hiring employees. Key positions within our organization structure should be identified with regards to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to performed their duties.

Training Programs

The company will develop ongoing employee training and Investor Education under the leadership of the Principal Officer. It will be based on our **Nikhil Commodity & Derivatives Pvt. Ltd.** size, its customer base, and its resources.

Training will include, at a minimum: how to identify Client under scrutiny and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the **Nikhil Commodity & Derivatives Pvt. Ltd.** compliance efforts and how to perform them; **Nikhil Commodity & Derivatives Pvt. Ltd.** record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

The company will review its operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

Confidential Reporting of AML Non-Compliance

Employees will report any violations of AML compliance program to the Principal Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to the Chairman of the Board. Such reports will be confidential, and the employee will suffer no retaliation for making them.

Periodicity of Review of the Policy

The aforesaid AML policy shall be reviewed periodically by Board with regard to testing its adequacy to meet the compliance requirements of PMLA 2002 and relevant circulars issued by Regulatory/ Statutory bodies.

Board of Directors Approval

The Board of Directors has approved this AML program as reasonably designed to achieve and monitor our ongoing compliance with the requirements of the PMLA and the implementing regulations under it.

**COPY OF THE RESOLUTION IN THE MEETING OF BOARD OF
DIRECTORS OF THE COMPANY HELD ON 07-Jul-2021 AT THE
REGISTERED OFFICE OF THE COMPANY**

The Board of company has reviewed the AML and Other Policies after discussion passed the following resolution:-

Resolved further that the company do hereby take all such measures as per necessary to comply with the AML Policy.

Resolved further that Mr. Niranjan Desai & Mr. Nirav Desai Director of the Company, be and is here by authorized to take necessary steps in this regard.

**CERTIFIED TRUE COPY
For NIKHIL COMMODITY AND DERIVATIVES PVT. LTD.**

**(NIRANJAN DESAI)
CHAIRMAN**