

## **Nivedita Mercantile and Financing Limited**

### **Know Your Customer (KYC) and Anti-Money Laundering (AML) Policy**

#### **Background**

This is the Know Your Customer (KYC) and Anti-Money Laundering (AML) Policy (the Policy) of **Nivedita Mercantile and Financing Limited (NMFL)**. NMFL is registered NBFC listed on BSE Limited. NMFL is committed in its efforts to comply with the applicable anti money laundering standards and Know your client requirements.

#### **Prevention of Money Laundering Act, 2002 (PMLA)**

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005 and it provides for Anti-money Laundering and Anti-terrorist Financing measures to be taken in India and the rules framed there under provides guidance on the practical implementation of the provisions laid down in the Act. The Director appointed by Financial Intelligence Unit-INDIA (FIU-IND) has been conferred with exclusive and concurrent powers under relevant sections of the Act to implement its provisions. The Act imposes an obligation on banking companies, financial institutions and intermediaries associated with the securities market and registered with the Securities and Exchange Board of India (SEBI) under section 12 of SEBI Act, 1992.

#### **Objective**

The key objective of the KYC & AML policy is to ensure that the Company's money is not used, intentionally or unintentionally, directly or indirectly, for any unlawful and prohibited activities or purpose particularly those which are covered by Prevention of Money Laundering Act 2002(PMLA). At the same time KYC & AML Policy will also enable the Company to have more transparent and specific information about their customers and their financial dealings which will enable the Company to effectively determine risk level involved in different loan transactions and will help the Company to undertake effective risk management.

#### **Know your Clients Requirements**

KYC & AML Policy will be applicable to all types of customers including individual, partnership firms, employees, corporate entities, associations, trusts, societies or any other entity having a legal status. This policy will also cover those persons who are the real beneficiaries of the credit facilities extended by the Company and those who represent such persons or entities. This includes collecting proof of identity, proof of address, photograph, such other documents including in respect of the nature of business and financial status of the client as may be required by NMFL of the investors in the capacity of beneficial owners, directors, authorized

persons, Delegation of Authority of Power of Attorney holders or any key stakeholders of the relationship.

**KEY ELEMENTS OF POLICY**

1. Customer Acceptance Policy (CAP)
2. Customer Identification Procedures (CIP)
3. Categorization of Clients
4. Monitoring of Transactions
5. Recruitment and Training of Employees
6. Investors Education
7. Record keeping and retention of Records
8. Identification of Suspicious transactions
9. Reporting of Suspicious transactions
10. Review Policy
11. Appointment of Principal Officer
12. Responsibilities of Principal Officer

**A. CUSTOMER ACCEPTANCE POLICY (CAP)****a) Norms and Procedures:**

Following norms and procedures will be followed by the Company in relation to its customers who approach the Company for availing loan facilities.

While taking decision to grant any one or more credit facility to customers as well as during the continuation of any loan account of the customer the following norms will be adhered to by the Company:

i) No loan account will be opened nor any loan will be disbursed in a name which is anonymous or fictitious or appears to be a name borrowed only for the purpose of opening the loan account i.e. Benami Account. Company shall insist for sufficient proof about the identity of the customer to ensure his physical and legal existence at the time of accepting the application form from any customer.

ii) All such loan requests where the customer without sufficient cause, does not provide information and documentary evidence in terms of the requirements outlined by the Company in loan application form, to the satisfaction of the Company will not be processed unless the customer has genuine difficulty or reason for not providing such information, but the Company even in the absence of such information is otherwise satisfied about the identity and credentials of the customer on the basis of independent verification conducted by the Company at its own level without the knowledge of the customer.

iii) While collecting information from the customers about his identity, work place, status, financial resources, the business shall keep in mind the obligations of Company as NBFC

Company laid down under PMLA and Rules or Regulations framed there under, directions issued by RBI or any other Government agency on the matters relating to maintenance and furnishing of information by financial institutions to the authorities constituted under PMLA or any other authorities empowered under law to seek any information from the company about the customers.

iv) Circumstances, in which a customer is permitted to act on behalf of another person/entity, shall be clearly spelt out in conformity with the established law and practices, as there could be occasions when an account is operated by a mandate holder or where an account may be opened by an intermediary in a fiduciary capacity.

v) The Company shall not open any account or give any loan nor sanction any loan in the following circumstances:

a) The Company is unable to verify the identity of the customer;

b) The Customer without any valid or convincing reasons refuses to provide documents to the Company which are needed to determine the risk level in relation to the customer loan applied for by the customer and his paying capacity;

c) Information furnished by the customer does not originate from the reliable sources or appears to be doubtful due to lack of supporting evidence.

d) Identity of the customer, directly or indirectly matches with any individual terrorist or terrorist organization or prohibited/unlawful organizations, whether existing within the country or internationally, or if the customer or beneficiary is found, even remotely, to be associated with or affiliated to any illegal, prohibited or unlawful or terrorist organization as notified from time to time either by Govt. of India, State Govt. or any other national or international body/organization.

(v) Subject to the above mentioned norms and caution, at the same time all the employees of Company will also ensure that the above norms and safeguards do not result in any kind of harassment or inconvenience to bonafide and genuine customers who should not feel discouraged while dealing with the Company.

#### **CLIENT IDENTIFICATION PROCESS:**

The following precautions will have to be taken by the Company in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities:

1. The Company will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
2. Verify client's identity

3. The Company will register clients as per SEBI/BSE/NSE guidelines and it will develop appropriate reporting system to monitor client's trades.
4. Company shall periodically update all documents, data or information of all clients and beneficial owners collected under Client Due Dilligence process provided the client provides the information.
5. Company shall ensure that maker-checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In case of mismatch of signature/s on PAN and the Account Opening Form (AOF), the Company shall ask for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.
6. In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation must be done only after getting prior approval of Compliance Department. Compliance Department's approval will also be taken when an existing client becomes PEP at a later stage.

**CATEGORIZATION OF CLIENTS:**

Company shall accept the clients based on the risk they are likely to pose. For this purpose, Company shall categorize the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

**LOW RISK:**

Low risk clients are those who are likely pose low or nil risk as per the PMLA policy. Individuals 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 may be categorized as low risk. They can be following:

1. Salaried Individuals.
2. Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
3. Government employees and government owned companies.
4. HNI's who have respectable social and financial payments.
5. Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
6. Clients who do not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency
7. Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

**MEDIUM RISK:**

Customers that are likely to pose medium risk to the Company may be categorized as medium risk such as:

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.

1. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
2. Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.

**HIGH RISK:**

1. Entities into foreign exchange business.
2. High Net worth individuals whose identity and source of wealth is difficult to identify.
3. Trusts, charities, NGOs and organizations receiving donations,
4. Politically Exposed Persons (PEPs)
5. Those with dubious reputation as per public information available, etc.
6. Clients in high risk countries as announced by appropriate authority from time to time

**MONITORING OF TRANSACTIONS**

Company shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

The Compliance Department shall ensure adherence to the KYC policies and procedures. Internal Auditors shall specifically check and verify the application of KYC procedures and comment on the lapses if any observed in this regard. All staff members shall be provided training on Anti Money Laundering. The focus of training shall be different for frontline staff, compliance staff and staff dealing with new customers.

The Compliance Department shall randomly examine a selection of transactions /clients and comment whether any suspicious transactions are done or not.

**RECRUITMENT & TRAINING OF EMPLOYEES**

Company shall ensure adequate screening procedures at the time of hiring its staff. It shall also ensure that the employees dealing with PMLA requirements are suitable and competent to perform their duties.

Company will conduct PMLA awareness program for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA. The Company will ensure that the new staff recruited by them is also given initial PMLA awareness training.

The Principal Officer will also impart periodical refresher training to the staff to keep them updated on new developments and to communicate any changes in the policies, procedures etc.

## **INVESTOR EDUCATION**

Company will upload its PMLA policy with changes in the policy from time to time on its website for creating awareness amongst the investors.

## **RECORD KEEPING & RETENTION OF RECORDS**

PMLA stipulates that all relevant documents like AOF and their supporting documents and all instructions for operating the account given by Client or its duly registered Power of Attorney should be maintained at least for a minimum period of 10 years after the account is closed. In cases where the records relate to on-going investigations or transactions that have been a subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

In view of this, Company shall maintain the records in terms of the provisions of PMLA. The retention period shall be modified on receiving appropriate instructions from any regulatory authority like SEBI, FIU-IND or any other statutory authority.

## **IDENTIFYING OF SUSPICIOUS TRANSACTIONS**

The Company shall maintain records of debits and credits of transactions through various services to the clients, as per their specific instructions. The Rules notified under the PMLA defines a “suspicious transaction” as a transaction whether or not made in cash which, to a person acting in good faith-

- Give rise to reasonable ground of suspicion that it may involve proceeds of crime
- Appears to be made in circumstances of unusual or unjustified complexity; or
- Appears to have no economic rationale or bonafide purpose.

Indicative List of suspicious transactions for Broking Account are:

- False Identification documents submitted by the client at time of account opening.
- Doubt over the real beneficiary of the account.

- Suspicious background or links with known criminals.
- Unusual activity compared with past transactions.
- Sudden activity in dormant accounts.
- Unexplained transfer among multiple accounts without any rationale/reason.
- Regular transfers from multiple accounts to a single common BO account.
- Unusual high turnover of transactions in comparison with disclosed income

**REPORTING OF SUSPICIOUS TRANSACTIONS:**

The concerned department's staff i.e Client Relation/Settlement/Compliance shall monitor all transactions executed by clients and report to the Principal Officer any transaction that appears to be of suspicious nature. Also system generates file of suspicious transactions based on few set parameters and informs CR staff to download such data for further investigation. The Principal Officer shall analyze and examine such data and then decide if any transaction listed therein warrants a closer inspection or not. He shall maintain the records of all such data received from authority and record the action taken against any client for suspicious transactions.

In case the Principal Officer comes across any transaction that appear to be of suspicious nature, he shall also submit the report of such transactions directly to The Director, FIU-IND in the prescribed format, within seven working days of establishment of suspicion.

The Company shall not put any restriction on operation in the accounts of any client where an STR has been made and the same has been reported to FIU-IND. The Company shall also be prohibited from disclosing the same to the client for whom the STRs have been reported to FIU-IND. However, in exceptional circumstances consent may not be given to continue to operate the account, and transaction may be suspended.

**REVIEW OF POLICY**

The aforesaid AML policy shall be reviewed periodically with regard to testing its adequacy to meet the compliance requirements of PMLA 2002. The Principal Officer shall be the authority to give directions to undertake additions, changes, modifications etc. as directed by SEBI/ FIU-IND.

**APPOINTMENT OF PRINCIPAL OFFICER**

The Company will identify an official from amongst the staff members to act as Principal Officer under the provisions of PMLA.

The Board shall be the competent authority for identifying the Principal and Alternate Officers. The details of appointment of the Principal Officer will be intimated to FIU-IND immediately.

**RESPONSIBILITIES OF PRINCIPAL OFFICER:**

The Principal Officer will ensure that:

1. The PMLA Guidelines and the Board approved PMLA policy is implemented effectively by the Company.
2. The Company reports the suspicious transactions to the concerned authorities within the specific time as per the PMLA policy.
3. The Company is regularly updated regarding any changes/ additions/ modifications in PMLA provisions.
4. The Company responds promptly to any request for information, including KYC related information, made by the regulators, FIU- IND and other statutory authorities.
5. Any other responsibilities assigned by Managing Director or any other official authorized by Managing Director with respect to the implementation of PMLA guidelines issued by SEBI from time to time.