

KEDIA SHARES & STOCKS BROKERS LTD
ADDITIONAL LITERATURE FOR AML REQUIRMENTS

What is money laundering?

Illegal activities such as drug trafficking, trade in weapons and white collar crimes can generate large sums of money. Money laundering refers to the act of making these gains legitimate by disguising the source of money, changing it's from or moving it to a location where not many questions are asked. The usual way is to put the money into the financial system by breaking it down into small deposits. The funds are then moved to different accounts with multiple banks. In the third stage, the money is used to acquire real assets, which then create legitimate gains. The estimates of money laundered range from 2-5% of the national income.

What are the implications?

Unchecked money laundering makes monetary management difficult as there is no fix on the money supply. A country that is soft on illegal money risks losing foreign investments and can also attract unsocial elements. Such elements may gradually use their money power to acquire influence and undermine the system. Laundered money could also be used to finance terror.

What is regulatory regime in India?

The prevention of Money Laundering act, 2002, forms the core of the legal framework in India. PMLA and the rules notified there under are in effect from July 1, 2005. FIR-IND and Enforcement Directorate are the two agencies responsible for PMLA implementation. The Financial Intelligence Unit, a central agency that receives information, analyses and processes the data and disseminates it to national and international authorities.

This Act is called Prevention of Money Laundering Act 2002. (PMLA)

The purpose of this act is to prevent the financing of terrorism and to prevent laundering of money i.e. to legalize or officialize or canalize the money generated from illegal activities like drug trafficking, organized crimes, hawala rackets and other serious crimes. This act is a part of the Global measures being taken by all the countries under the initiatives of UN agencies. It is applicable to all SEBI Registered brokers/sub-brokers and other financial institution who are dealing in any kind of financial assets. It is an obligation of the entities to whom this Act is applicable, to report certain kind of transactions routed through them to FINANCIAL INTELLIGENCE UNIT, a department specially set up to administer this Act under the Ministry

of Finance. The transactions which are supposed to be reported are cash transactions above rupees ten lakhs or series of cash transactions below ten lakhs but aggregating to above ten lakhs in a month or its equivalent in any foreign currency and the transactions which may not be in cash but suspicious in nature. Any such above types of transaction, though not executed but attempted and failed are also required to be reported.

The suspicious transaction can be related to the transaction under the circumstances such as;

- 1) Clients whose identity verification seems difficult or clients that appear not to cooperate
- 2) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- 3) Clients based in high risk jurisdictions;
- 4) Substantial increases in business without apparent cause;
- 5) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- 6) Attempted transfer of investment proceeds to apparently unrelated third parties;
- 7) Businesses undertaken by offshore banks/financial services,
- 8) Businesses reported to be in the nature of export/import of small items.
- 9) Unusual transactions by Clients of Special Categories (CSCs).

Clients of Special Categories may include;

- 1) NRI/HNI/Trust/Charities/NGO/Organizations receiving donations
- 2) Companies having close family shareholdings or beneficial ownership
- 3) Politically Exposed Persons
- 4) Companies offering foreign exchange offerings
- 5) Clients in high risk countries
- 6) Non face to face clients
- 7) Clients with dubious reputation as per public information available

The end clients are advised to co-operate with us by providing the additional information / documents, if asked for during the course of your dealings with us to ensure the compliance requirements under this Act.

As a responsible citizen, it is our statutory as well as moral duty to be vigilant and to refrain from temptation of easy monetary gains, by knowingly or unknowingly supporting the people who are involved in the activities which are endangering our freedom and causing damage to the nation and to us as well.
