

## **FARSIGHT SECURITIES LTD**

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### **POLICY ON KYC STANDARDS & ANTI-MONEY LAUNDERING MEASURES**

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#### **1. BACKGROUND:**

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with 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. The stock brokers fall under the category of intermediaries under section 12 of SEBI Act, 1992, and hence the provisions of PMLA are also applicable to all the stock brokers. Establishment of Anti-money Laundering programs by Market Intermediaries are one of the central recommendations of the Financial Action Task Force (FATF). SEBI has issued necessary directives from time to time vide its circulars covering issues related to Know Your client (KYC) norms, Anti Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). This policy document is based on the SEBI's master circular on PMLA bearing reference no. **SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78** dated June 06, 2024,

As per the provisions of the Act, 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, asset management company, depository participant, 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 (SEBI) Act, 1992) shall have to adhere to client account opening procedure and maintain a record of all such transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. 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 have taken place within one calendar month and the monthly aggregate exceeds an amount of rupees 10 lakhs or its equivalent in foreign currency.
- 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 may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 8 transactions integrally connected<sup>9</sup>, 8 transactions remotely connected or related<sup>8</sup> shall also be considered. In case there is a variance in CDD/ AML standards prescribed by SEBI and the regulators of the any other country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements.

which consolidates requirements/obligations to be fulfilled by all the registered intermediaries. This policy will be subject to changes in order to incorporate further directives that SEBI may give vide its circulars on PMLA, from time to time.

## **2. WHAT IS MONEY LAUNDERING ?**

Money Laundering is the processing of criminal proceeds to disguise their illegal origin. It is a process by which persons with criminal intent or persons involved in criminal activities attempt to hide & disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of illegal funds. There are three common stages of Money Laundering, namely placement, Layering & Integration, which are resorted to by the launderers. The laundered proceeds re-enter the financial system appearing to be normal business funds and Market Intermediaries may unwittingly get exposed to a potential criminal activity while undertaking such normal business transactions. Market Intermediaries are therefore placed with a statutory duty to make a disclosure to the Authorized Officer when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of a predicated offence, or was or is intended to be used in that connection is passing through the Market Intermediaries. Law protects such disclosures, enabling the person with information to be able to disclose the same without any breach of confidentiality.

Market Intermediaries likewise need not abstain themselves from providing such information pertaining to its customers.

## **3. FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA**

The Government of India has set up FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by Finance Minister.

FIU-IND has been established as the central national Agency responsible for receiving, processing, analyzing and disseminating information related to suspect financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

## **4. ANTI MONEY LAUNDERING PROGRAM (AML)**

The objective of having an AML Program is to have in place adequate policy, practice and procedure that help to prevent money-laundering activities. Such procedures would include the following:

- Appointment of Principal Officer.
- Client Due Diligence is the main part of the policy and includes following:
  - a. Client Acceptance Policy
  - b. Client Identification Procedure.
  - c. Categorization of Clients
  - d. Transaction monitoring to identify & report Suspicious Transactions (STR)
  - e. Record keeping & retention of records

- f. Co-operating with law enforcement agencies in their efforts to trace the Money laundering transactions and persons involved in such activities
- g. On-going training to the employees to ensure strict adherence to Customer Due diligence requirements
- h. Imparting investor education
- i. Reports to Financial Intelligence Unit-India (FIU-IND).
- j. Risk Management

These procedures and standards would assist in knowing and understanding the trading activities of its existing and prospective clients and to prevent **FARSIGHT SECURITIES LIMITED (FSL)** from being used as a medium, intentionally or unintentionally for carrying out money laundering activities. The chapters ahead detail the AML program adopted by the company.

## **5. Appointment Designation of officers for ensuring compliance with provisions of PMLA**

### **A) Appointment of a Principal Officer**

FSL shall properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU-IND. In terms of Rule 2 (f) of the PML Rules, the definition of a Principal Officer reads as under:

"Principal Officer means an officer designated by a registered intermediary (FSL)"

### **B) Appointment of a Designated Director:**

In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes –

- a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company.

FSL (Registered intermediaries) communicate the details of the Designated Director, such as, name designation and address to the Office of the Director, FIU – IND.

### **C) 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 identification and assessment of potentially suspicious transactions are done on the regular basis.
3. FSL reports the suspicious transactions to the concerned authorities within the specific time as per the PMLA policy.

4. FSL is regularly updated regarding any changes/ additions/ modifications in PMLA provisions.
5. FSL responds promptly to any request for information, including KYC related information, made by the regulators, FIU- IND and other statutory authorities.
6. 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.

**6. CLIENT DUE DILIGENCE:**

**6.1 CLIENT ACCEPTANCE PROCEDURE:**

Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the true identity of clients. FSL has to put in place effective procedures to obtain requisite details for proper identification of new customers.

1. ALL KYC Documentations and Procedures shall be followed at the time of account opening and no account shall be opened where FSL is unable to apply appropriate CDD measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non-genuine or there is perceived non-cooperation of the client in providing full and complete information.
2. No account shall be opened in anonymous or fictitious / benami name(s). PAN shall be mandatory for each account. Each client shall have only one trading account.
3. The parameters of risk perception in terms of the nature of business activity, location of customer (registered office address, correspondence addresses and other addresses if applicable mode of payments, volume/trading turnover, social and financial status, and manner of making payment for transactions undertaken, etc. The parameters shall enable categorization of customers into low, medium and high risk.
4. Provided that in case of a Trust, the reporting entity shall ensure that trustees disclose their status at the time of commencement of an account based relationship.
5. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher; Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile;
6. The registered intermediaries shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:
  - a) Non - resident clients;
  - b) High net-worth clients;
  - c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
  - d) Companies having close family shareholdings or beneficial ownership
  - e) Politically Exposed Persons" (PEPs). PEP shall have the same meaning as given in clause (db) of sub-rule (1) of rule 2 of the PML Rules. The additional norms applicable to PEP as contained in the subsequent paragraph 20 of the master circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs;
  - f) Clients in high risk countries. While dealing with clients from or situated in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against

- money laundering or terror financing is suspected, registered intermediaries apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website ([www.fatf-gafi.org](http://www.fatf-gafi.org)) from time to time, shall also independently access and consider other publicly available information along with any other information which they may have access to. However, this shall not preclude registered intermediaries from entering into legitimate transactions with clients from or situated in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas. The intermediary shall specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF;
- g) Non face to face clients - Non face to face clients means clients who open accounts without visiting the branches/offices of the registered intermediaries or meeting the officials of the registered intermediaries. Video based customer identification process is treated as face-to-face onboarding of clients;
  - h) Clients with dubious reputation as per public information available etc.
7. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.
  8. Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. The registered intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The registered intermediary shall be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, the registered intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
  9. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent-client registered with the intermediary, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
  10. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client 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 by any enforcement agency worldwide.
  11. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.

Identifying beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted. The beneficial owner shall be determined as under-

**a)Where the client is a company :** the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means

**b)Where the client is a partnership firm :** the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than ten percent of capital or profits of the partnership or who exercises control through other means.

**c)where the client is an unincorporated association or body of individuals:** the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen per cent. of the property or capital or profits of such association or body of individuals;

**d)where no natural person is identified** under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;

**e)Where the client is a trust,** the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with ten per cent or more interest in the trust, settlor, protector and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and

**f)where the client or the owner of the controlling interest is an entity** listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.

**g)Applicability for foreign investors :** Registered intermediaries dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

1. The submission of all documents required under this policy shall be pre-requisite for account opening for all clients. Incomplete application including incomplete documentation will be rejected. FSL will follow the industry standard for implementing client identification procedure.
2. The authorized official /employees of FSL shall personally verify the photograph of the client affixed on the Account Opening Form [AOF] and the proof of identity documents with the person concerned. A stamp of <Identity Verified in Person= must be affixed (as a proof of In Person Verification) on the AOF against the photograph of the client & on the proof of identity documents. The authorized official of the FSL who has done in- person verification and verified the documents with original should also sign on the AOF & ID proof.
3. Each original document shall be seen prior to acceptance of a copy. Stamp of documents verified with originals= must be affixed along with the signature of the authorized person.
4. In case of any discrepancy or non-provision of information by the client, FSL shall seek necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF and that on the PAN Card do not match etc.
5. For the purpose of risk categorization, individuals/entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk. Illustrative examples of low risk customers are as follows:
  - a) Salaried employees whose salary structures are well defined;
  - b) Government Departments and Government owned companies;
  - c) Regulators and statutory bodies; etc.

1. Customers that are likely to pose a higher than average risk to FSL shall be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. Clients of Special Category (CSC) as defined as per PMLA circular dated 4th July 2018, will be classified as „High-Risk“. Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile, FSL shall apply Customer Due Diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear..
2. Verify the customers identity using reliable, independent source documents, data or information by following procedure:
  - a. The PAN Card details should be verified with the name(s) appearing on the website of the Income Tax Department, <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp?pAction=Post>  
In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, FSL should seek necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.
  - b. FSL shall maintain list of the person who have been debarred by SEBI and shall update the list on the regular basis and ensure that no client's application is accepted if the name of such client falls in the list of debarred person maintained by FSL.
  - c. Precaution shall be taken as far as possible before opening an account so as to ensure that the identity of the client 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 by any enforcement agency worldwide provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to FSL from websites generally known for such purpose/information provided by SEBI/BSE/NSE.
  - d. As per guidance provided by SEBI/BSE/NSE, FSL shall put in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures would include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/BSE/NSE.
3. As per guidance provided by SEBI/BSE/NSE, FSL shall obtain sufficient information from the clients in order to identify person who beneficially owns and controls accounts.
4. FSL may request to every new client to open his trading account along with his DP Account with FSL -DP.
5. Precaution to be taken that no account is opened in a fictitious / benami name or on an anonymous basis.
6. FSL shall categorize its clients into low, medium and high risk as per the Client categorization procedure adopted by FSL from time to time. Clients shall be categorized at the time of account opening with FSL based on recommendation made by the Branch Manager/ Relationship Manager/ Sub-broker/ Authorized Person who introduces the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular will be closely monitored unless the client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.
7. The applicant shall be required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years balance sheet may be obtained.



8. FSL may modify the Format of Account Opening Form (AOF) to obtain the necessary information of the client in order to achieve PMLA objective.
9. FSL shall take reasonable measures to verify the sources of funds as well as wealth of the clients and ensure that they are routed through proper banking channels. FSL shall take reasonable steps to ensure that funds are received from a client through his bank account registered with FSL and payment to the client will be made through „Account Payee“ Cheque and/ or direct credit to the client bank account registered with FSL. FSL is neither accepting cash from its clients nor giving cash to its clients. As per SEBI directive, FSL will get banker's certificate whenever a client gives demand draft.

## 6.2 CLIENT IDENTIFICATION PROCESS:

The following precautions will have to be taken by FSL in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities: The Provision of SEBI Circular No SEBI/HO/MIRSD/ MIRSDSECFATF/ P/CIR/2024/78 June 06, 2024 though not fully reproduced here yet these will be implemented in toto.

- FSL will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
- Verify client's identity.
- FSL will register clients as per SEBI/BSE/NSE/CDSL/NSDL guidelines and it will develop appropriate reporting system to monitor client's trades.
- FSL shall periodically update all documents, data or information of all clients and beneficial owners collected under CDD process provided the client provides the information.
- FSL 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 AOF, FSL shall ask for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.
- 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 Officer. Compliance Officer's approval will also be taken when an existing client becomes PEP at later stage.
- Understand the nature of business, ownership and control structure of the client
- Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds
- Review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data
- **Farsight** periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due diligence is kept up-to-date and relevant, particularly for high risk clients
- Farsight register the details of a client, in case of client being a non-profit organisation, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.

- Where Farsight is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, the registered intermediary shall not pursue the CDD process, and shall instead file a STR with FIU-IND.
- No transaction or account-based relationship shall be undertaken without following the CDD procedure
- All registered intermediaries are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.
- Farsight placed appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPs.
- Registered intermediaries shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
- Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority Compliance Officer of Farsight.
- Further, the intermediary shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.
- Farsight implemented a CIP (Client identification procedure) which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients.
- On obtaining the minimum information/documents from clients as stipulated in the PML Rules/ SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This have been strictly implemented by Farsight and appropriate sanctions to stop non-compliance.

#### **Reliance on third party for carrying out Client Due Diligence (CDD)**

- a) identification and verification of the identity of a client and
- b) Determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

**Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. In terms of Rule 9(2) of PML Rules:**

- a) Farsight shall immediately obtain necessary information of such client due diligence carried out by the third party;

- b) Farsight shall take adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- c) The Farsight be satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- d) Farsight shall verify that third party is not based in a country or jurisdiction assessed as high risk;
- e) The registered ( Farsight) shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable

### **6.3 CATEGORIZATION OF CLIENTS:**

#### **Risk-based Approach**

Farsight shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have policies approved by their senior management, controls and procedures in this regard. Further, the registered intermediaries shall monitor the implementation of the controls and enhance them if necessary.

FSL shall accept the clients based on the risk they are likely to pose. For this purpose, FSL shall categorize the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process as the client's background, type of business relationship or transaction etc. and the risk category defines as below.

#### **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. Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk. They can be following:

- 6.3.1** Salaried Individuals.
- 6.3.2** Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
- 6.3.3** Government employees and government owned companies.
- 6.3.4** HNI"s who have respectable social and financial payments.
- 6.3.5** Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
- 6.3.6** Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency.
- 6.3.7** 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 FSL may be categorized as medium risk 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 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 Networth 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.

## **Risk Assessment**

- Farsight carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc.
- The risk assessment consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.
- The risk assessment also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions.

## **7 RECRUITMENT & TRAINING OF EMPLOYEES**

FSL 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. FSL will conduct PMLA awareness program for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA. FSL 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. The Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

## **8 Investor Education**

Implementation of KYC procedures requires the FSL to demands certain information from customer which may be of personal nature or which has hitherto never been called for or which do not appear in the standard checklists. This sometimes leads to a lot of questioning by the customer as to the motive and purpose of collecting such information. The Relationship Managers of FSL shall be trained to explain to the Customers the regulatory requirements and benefits of adhering to the KYC guidelines and seek co-operation of the customer. FSL put up an extract of this policy on its Website to educate clients regarding the objectives and broad framework of the AML/CFT programme.

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

### **A) RECORD KEEPING**

FSL ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made thereunder, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Byelaws and Circulars.

Registered Intermediaries shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

In case of any suspected laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, registered intermediaries shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail.

- a) The beneficial owner of the account
- b) the volume of the funds flowing through the account; and
- c) for selected transactions:
  - (i) The origin of the funds
  - (ii) The form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
  - (iii) The identity of the person undertaking the transaction;
  - (iv) The destination of the funds;
  - (v) The form of instruction and authority.

More specifically, FSL put in place a system of maintaining proper record of the nature and value of transactions which has been prescribed under Rule 3 of PML Rules as mentioned below:

- All cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
- all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;
- Clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.
- 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 facilitating the transactions;
- All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non-monetary account such as demat account, security account maintained by the registered intermediary.

If FSL does not have records of the identity of its existing clients, it shall obtain the records forthwith, failing which the registered intermediary shall close the account of the clients after giving due notice to the client.

Registered Intermediaries shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed thereunder PMLA, other relevant legislations, Rules and Regulations or Exchange byelaws or circulars.

## **B) RETENTION OF RECORDS**

FSL shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a **period of five years** from the date of transactions between the client and intermediary.

And other additional requirements that it considers appropriate. 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.

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, FSL 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.

For the purpose of the record keeping provision we shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

## **10 MONITORING OF TRANSACTIONS**

- a) Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities
- b) FSL shall pay special attention to all complexes, 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.
- c) FSL shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities of FSL.
- d) 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. While monitoring the transactions, FSL may shift the clients from one category to another depending upon the risk perceived by FSL.
- e) FSL have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below:
  - (a) All cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency; and all suspicious transactions weather or made in cash and by way of as mentioned in the PMLA rule.
  - (b) All series of cash transactions integrally connected to each other which have been individually valued below Rupees Ten Lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of Ten Lakh rupees or its equivalent in foreign currency.
  - (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 facilitating the transactions

(d) All transactions involving receipts by non-profit organizations of value more than rupees ten lakh, or its equivalent in foreign currency.

(e) Suspicious transactions= 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 unusually large and / or made in circumstances of unusual or unjustified complexity
- appears to have no economic rationale or bonafide purpose.

## **11 IDENTIFYING OF SUSPICIOUS TRANSACTIONS**

FSL 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 faiths (a) Give rise to reasonable ground of suspicion that it may involve proceeds of crime; (b) Appears to be made in circumstances of unusual or unjustified complexity; or (c) Appears to have no economic rationale or bonafide purpose. Indicative List of suspicious transactions for Broking Account is:

1. False Identification documents submitted by the client at time of account opening.
2. Doubt over the real beneficiary of the account.
3. Suspicious background or links with known criminals.
4. Unusual activity compared with past transactions.
5. Sudden activity in dormant accounts.
6. Unexplained transfer among multiple accounts without any rationale/reason.
7. Regular transfers from multiple accounts to a single common BO account.
8. Unusual high turnover of transactions in comparison with disclosed income.
9. Clients whose identity verification seems difficult or clients that appear not to cooperate;
10. Asset management services for clients where the source of the funds is not clear.
11. Clients based in high risk jurisdictions.
12. Attempted transfer of investment proceeds to apparently unrelated third parties.
13. Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services.

## **12 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. FSL 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. FSL 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.

Any suspicious transaction shall be immediately notified to the Designated/Principal Officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/ suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Designated/ Principal Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

FSL Clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Registered intermediaries are directed that such clients shall also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc002E

Counts of alerts and reporting made to FIU shall be submitted to Exchanges / Depositories or regulators at the monthly / quarterly intervals as specified by Exchanges / Depositories or regulators from time to time.

FSL maintain updated designated lists / negative lists for screening purposes in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed therein are holding any funds, financial assets or economic resources or related services held in the form of securities with them. In the event, particulars of any of customer/s match the particulars of designated individuals/entities, subject to UN Sanctions, FSL from the time of finding out such customer, shall immediately to report in terms of the PML Rules, to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit – India, 6th Floor, Tower-2, Jeevan Bharati Building,  
Connaught Place, New Delhi-110001, INDIA  
Telephone : 91-11-23314429, 23314459 , 91-11-23319793(Helpdesk)  
Email: [helpdesk@fiuindia.gov.in](mailto:helpdesk@fiuindia.gov.in)  
(For FINnet and general queries)  
[ctrcell@fiuindia.gov.in](mailto:ctrcell@fiuindia.gov.in)  
(For Reporting Entity / Principal Officer registration related queries)  
[complaints@fiuindia.gov.in](mailto:complaints@fiuindia.gov.in)  
Website: <http://fiuindia.gov.in>

FSL shall not put any restrictions on operations in the accounts where an STR has been made. Registered intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/ or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.



FSL shall file STR, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

further clarified that "proceeds of crime" include property not only derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relatable to the scheduled offence.

In case the aforementioned details of any of the customers match the particulars of designated individuals/entities beyond doubt, FSL would prevent designated persons from conducting any financial transactions.

### **13 REVIEW OF POLICY**

This Policy has been last reviewed, approved and adopted in the Board Meeting dated April 17, 2025. This policy will be reviewed by the Principal Officer, Designated Director for FIU (PMLA) and Designated Directors for the Stock Exchange memberships. Views of concerned Heads of Department, Compliance Officer and Chief Compliance Officer and Internal Auditors, if any, may be taken into account where the management finds it necessary. Revised versions of the policy shall be half yearly reviewed, approved and adopted by the Board of Directors of **Farsight**.

This policy has been reviewed and updated to incorporate all regulatory requirements until and including those in SEBI master circular no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/ 022 dated February 03, 2023, SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/062 dated April 26, 2023, SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023, SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated October 13, 2023 & SEBI/HO/MIRSD/MIRSDSECFATF/ P/CIR/2024/78 June 06, 2024

This Policy only supplements the existing SEBI / FIU guidelines relating to KYC/AML and any subsequent guidelines from the date of the Policy on KYC/AML will be implemented immediately, with subsequent ratification by the Board. Extant regulations will at any point in time override this Policy.

-Policy reviewed in Board meeting held on 17<sup>th</sup> April-2025

-Policy Approved in Board meeting held on 17<sup>th</sup> , April-2025.