

POLICY on
ANTI MONEY LAUNDERING AND KNOW YOUR CUSTOMER
GUIDELINE

Version: 1.02/2014

Version Date: 28/03/2014

Applicability: Stock Exchange & Depository Operations

Objectives

In response to the international community's growing concern about the problem of money laundering and potential terrorist financing, many countries around the world are enacting or strengthening their laws and regulations regarding this subject.

Anti Money Laundering Act, 2002 was passed by Indian Parliament in the year 2002 and the Act became effective from 1st July, 2005.

The Act specifies statutory duties for Banking companies, Financial Institutions and Intermediaries. The compliance with these duties is intended to supplement the law enforcement authorities activities, to detect proceeds derived from serious crimes and help to effectively prevent money laundering, terrorist financing, and recycling of illegally obtained money.

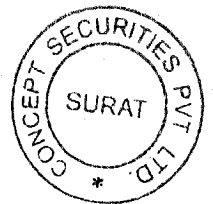
The purpose of this policy is to establish the general framework for the fight against money laundering, terrorism, financial crimes and corruption.

Member is committed to examining its Anti - Money Laundering strategies, goals and objectives on an ongoing basis and maintaining an effective Anti - Money Laundering program for its business that reflects the best practices for a diversified, retail financial services firm.

Background of the Anti Money Laundering Act, 2002 (AMLA)

Global Framework:

In response to mounting concern over money laundering world wide the G-7 Summit held in Paris in 1989 established a policy making body, having secretariat at Organisation for



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Economic Co-operation and Development (OECD), which works to generate the necessary political will to bring about national legislative and regulatory reforms to combat money laundering and terrorist financing.

The World Bank and the IMF have also established a collaborative framework with the FATF for conducting comprehensive AML/CFT assessments of countries' compliance with the FATF 40+8 Recommendations, using a single global methodology.

India has been accorded 'Observer' status

Indian Framework:

The Prevention of Money Laundering Act, 2002 came into effect from 1st July 2005. Necessary notifications/ rules under the said Act were published in the Gazette of India on 1st July 2005 by the Dept of Revenue, Ministry of Finance, Government of India

Subsequently, SEBI issued necessary guidelines vide circular no. ISD/CIR/RR/AML/1/06 dated 18th January 2006 to all securities market intermediaries registered under section 12 of the SEBI Act, 1992

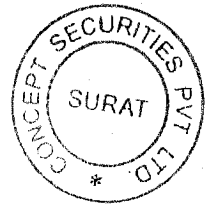
Guidelines were issued in the context of recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards.

SEBI issued master circular ISD/AML/Cir-1/2008 on December 19,2008 consolidating all the requirements/ obligations issued with regard to AML/ CFT till December 15, 2008

Applicability of PMLA Act

- ⇒ Banking company
- ⇒ Financial institution
- ⇒ Intermediary (which includes a stock broker ,DP, sub-broker, share transfer agent, portfolio manager, other intermediaries associated with securities market and registered under section 12 of the SEBI Act,1992)

shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include:



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- ⇒ All cash transactions > Rs 10 lacs or its equivalent in foreign currency.
- ⇒ All integrally connected series of cash transactions < Rs 10 lacs or its equivalent in foreign currency within one calendar month.
- ⇒ All suspicious transactions

What is Money Laundering?

Money Laundering involves disguising financial assets so that they can be used without detection of the illegal activity that produced them.

Through money laundering, the launderer transforms the monetary proceeds derived from criminal activity into funds with an apparent legal source.

Money laundering is the process by which criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities.

The term "Money Laundering" is also used in relation to the financing of terrorist activity (where the funds may, or may not, originate from crime).

Money Laundering is a process of making dirty money look clean.

Money is moved around the financial system again and again in such manner that its origin gets hidden.

Need for Anti Money Laundering:

It has become more evident that the next generation of identity thieves will deploy sophisticated fraud automation tools

The increased integration of the world's financial systems and the removal of barriers to the free movement of capital have enhanced the ease with which criminal money can be laundered

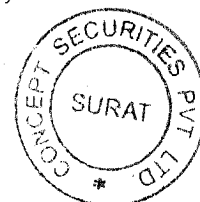
Every year, huge amounts of funds are generated from illegal activities. These funds are mostly in the form of cash

The criminals who generate these funds try to bring them into the legitimate financial system
Over \$1.5 trillion of illegal funds are laundered each year

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Successful money laundering activity spawning yet more crime, exists at a scale that can and does have a distorting and disruptive effect on economies, marketplaces, the integrity of jurisdictions, market forces, democracies etc.

Consequences of Money Laundering

Finances Terrorism:

Money laundering provides terrorists with funds to carry out their activities

Undermines rule of law and governance:

Rule of Law is a precondition for economic development – Clear and certain rules applicable for all.

Affects macro economy:

Money launderers put money into unproductive assets to avoid detection.

Affects the integrity of the financial system:

Financial system advancing criminal purposes undermines the function and integrity of the financial system

Reduces Revenue and Control:

Money laundering diminishes government tax revenue and weakens government control over the economy

Suspicious Transaction

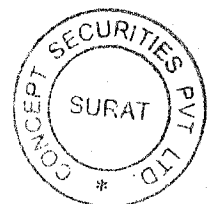
Suspicious Transaction means a transaction whether or not made in cash which, to a person acting in good faith:

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime
- Appears to be made in circumstances of unusual or unjustified complexity

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- Appears to have no economic rationale or bonafide purpose
- Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism
- Identity verification or address details seems difficult or found to be forged / false
- Asset management services where the source of the funds is not clear or not in keeping with apparent standing /business activity
- Substantial increases in business without apparent cause
- Unusual & Unexplained large value of transaction
- Transfer of large sums of money to or from overseas locations
- Unusual & Unexplained activity in dormant accounts

Stages of Money Laundering

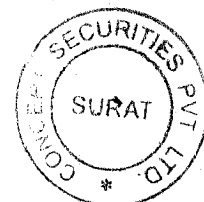
Although money laundering is a complex process, it generally follows three stages:

- **Placement** is the initial stage in which money from criminal activities is placed in financial institutions. One of the most common methods of placement is structuring—breaking up currency transactions into portions that fall below the reporting threshold for the specific purpose of avoiding reporting or recordkeeping requirements.
- **Layering** is the process of conducting a complex series of financial transactions, with the purpose of hiding the origin of money from criminal activity and hindering any attempt to trace the funds. This stage can consist of multiple securities trades, purchases of financial products such as life insurance or annuities, cash transfers, currency exchanges, or purchases of legitimate businesses.
- **Integration** is the final stage in the re-injection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal

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business funds. Banks and financial intermediaries are vulnerable from the Money Laundering point of view since criminal proceeds can enter banks in the form of large cash deposits.

Anti Money Laundering – KYC Standards

a) The objective of the KYC guidelines is to prevent Stock Broker & DP from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures enable Stock Broker & DP to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. The KYC policy of the Stock Broker & DP incorporates the following four elements:

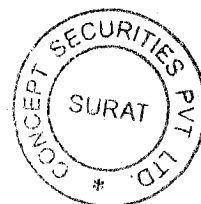
- i. Customer Acceptance Policy (CAP)
- ii. Customer Identification Procedures (CIP)
- iii. Monitoring of Transactions; and
- iv. Risk Management

b) A customer for the purpose of KYC Policy is defined as:

- ⇒ A person or entity that maintains an account and/or has a business relationship with the Stock Broker and DP
- ⇒ One on whose behalf the account is maintained (i.e., the beneficial owner)
- ⇒ Any person or entity connected with a trading transaction which can pose significant reputational or other risks to the Stock Broker & DP, say, a circular trading, off market transactions,

I Customer Acceptance Policy (CAP)

a) The following Customer Acceptance Policy indicating the criteria for acceptance of customers shall be followed.



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The **Member** shall accept customer strictly in accordance with the said policy and independent verification of each client must be done:

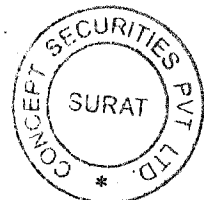
- i. No account shall be opened in anonymous or fictitious/benami name(s)
- ii. Parameters of risk perception shall be clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc., to enable categorization of customers into low, medium and high risk called Level I, Level II and Level III respectively; Customers requiring very high level of monitoring e.g., Politically Exposed Persons (PEPs) may be categorized as Level III
- iii. The Member shall collect documents and other information from the customer depending on perceived risk and keeping in mind the requirements of AML Act, 2002 and guidelines issued by SEBI/Exchange from time to time
- iv. The Member shall close an existing account or shall not open a new account where it is unable to apply appropriate customer due diligence measures i.e., Member is unable to verify the identity and/or obtain documents required as per the risk categorization due to non cooperation of the customer or non reliability of data/information furnished to the Member. The Member shall, however, ensure that these measures do not lead to the harassment of the customer. Further, the customer should be given a prior notice of at least 30 days wherein reasons for closure of his account should also be mentioned.
- vi. The Member shall make necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations, etc. RBI/SEBI/Exchange has been circulating lists of terrorist entities notified by the Government of India so that Stock Broker & DP exercise caution against any transaction detected with such entities.
The Member shall invariably consult such lists to ensure that prospective person/s or organizations, desirous to establish relationship, are not in any way involved in any unlawful activity and that they do not appear in such lists.

b) The Member shall prepare a profile for each new customer based on risk categorization.

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The nature and extent of due diligence shall depend on the risk perceived by the Member. The KYC Staff should continue to follow strictly the instructions regarding secrecy of customer information. KYC Staff should bear in mind that the adoption of customer acceptance policy and its implementation does not become too restrictive and should not result in denial of broking services to general public, especially to those, who are financially or socially disadvantaged.

c) The risk to the customer shall be assigned on the following basis:

i. Low Risk (Level I):

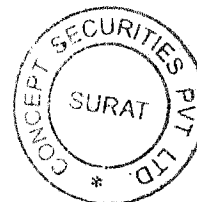
Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. The illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata 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 customer shall be met.

ii. Medium Risk (Level II):

Customers that are likely to pose a higher than average risk to the Stock Broker & DP may 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; such as:

- a) 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.
- b) Where the client profile of the person/s opening the account, according to the perception of the Member is uncertain and/or doubtful/dubious.

iii. High Risk (Level III):



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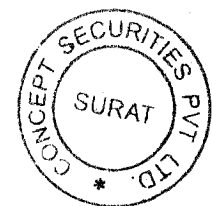
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The Member may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear.

Clients of special category (CSC)

Such clients include the following

- a. Non resident clients
- b. High net worth clients,
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. Politically exposed persons (PEP) of foreign origin
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.



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The above mentioned list is only illustrative and the Staff along with senior official should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

The persons requiring very high level of monitoring may be categorized as Level IV.

II. Customer Identification Procedure (CIP)

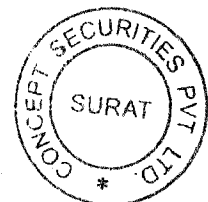
a) Customer identification means identifying the person and verifying his/her identity by using reliable, independent source documents, data or information. The Member need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of broking relationship. Being satisfied means that the Member is able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance of the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate, etc). For customers that are natural persons, the Member shall obtain sufficient identification data to verify the identity of the customer, his address/location, in person verification and also his recent photograph. For customers that are legal persons or entities, the Member shall (i) verify the legal status of the legal person/entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

b) If the Member decides to accept such accounts in terms of the Customer Acceptance Policy, the Member shall take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

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Further, SEBI Vide its circular no. CIR/MIRSD/2/2013 dated 24/01/2013 has provided guidelines for identification of Beneficial Ownership. Accordingly following guidelines shall be adhered while opening account of non individual clients.

A FOR CLIENTS OTHER THAN INDIVIDUALS OR TRUSTS:

I.e. Company, partnership or unincorporated association/body of individuals

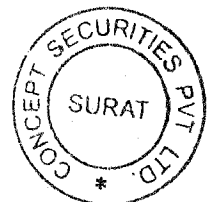
In this type of category, Member should identify beneficial ownership and verify the identity of such person through following information.

1. Identification of Natural persons who has a controlling ownership interest
 - a. In Case of Company -à Ownership/Entitlement of more than **25% of** Shares or Capital or Profits
 - b. In case of Partnership à Ownership/Entitlement of more than **15% of** Capital or Profits
 - c. In case of Unincorporated association or body of individual - Ownership/Entitlement of more than **15% of property** or Capital or Profits
2. In case where there exist **doubt under above identification point 1**, regarding controlling ownership, member shall identify control through means viz
 - a. Voting Rights
 - b. Agreements
 - c. Arrangements or any other manner
3. If, No person is identified under above identification Point 1 & 2, the identity of the relevant natural person who holds the position of senior managing official.

B. FOR CLIENT WHICH IS A TRUST:

In case of Trust, Member shall identify beneficial ownership through

- The identity of settler of Trust
- The Trustee
- The Protector
- The Beneficiaries with 15% or more interest in trust



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Any other person having ultimate control over trust through chain of control or ownership.

C. EXEMPTION IN CASE OF LISTED COMPANIES:

Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

D. APPLICABILITY FOR FOREIGN INVESTORS:

In case of foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client which clarifies that;

A. Though it is not mandatory, the intermediaries shall carry out due diligence as per the PMLA and SEBI Master Circular on AML about the financial position of the Foreign Investors.

B. List of beneficial owners with shareholding or beneficial interest in the client equal to or above 25% to be obtained. If Global Custodian /Local Custodian provide an undertaking to submit these details, then intermediary may take such undertaking only. Any change in the list to be obtained based on risk profile of the client.

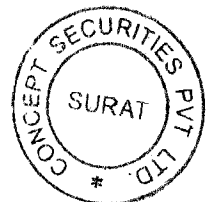
III Monitoring of Transactions

a) Continuous monitoring is an essential ingredient of effective KYC procedures and the extent of monitoring should be according to the risk sensitivity of the account. Member shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. Transactions that involve large amount of trading activity inconsistent with the size of the balance maintained may indicate that the funds are being 'washed' through the account. High risk accounts shall be subjected to intensive monitoring.

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b) No Cash Transaction should be allowed. Demand Draft shall be accepted only in exceptional cases and a declaration regarding legitimate income source shall be taken from the client giving payment through Demand Draft. A register detailing date of DD, Client Code, Name, PAN, DD amount and reason for giving DD shall be maintained and reviewed to prevent frequent DD transaction from the particular client. Further, If prefunded instruments amount is more than or equal to 50,000 per day per client, proofs as required by SEBI are to be taken on record before acceptance of instrument. The Member shall continue to follow strictly the instructions regarding suspicious transactions issued threshold limit of Rs.10 lakh and required to maintain proper record of the same.

c) The KYC Department shall ensure adherence to the KYC policies and procedures. All staff members shall be provided training on Anti Money Laundering. The focus of training shall be different for front office staff, back office staff, compliance staff, senior level staff and staff dealing with new customers.

IV Risk Management

a) KYC policies and procedures cover management oversight, systems and controls, segregation of duties, training and other related matters. For ensuring effective implementation of the KYC policies and procedures, the Member shall prepare risk profiles of all their existing and new customers and apply Anti Money Laundering measures keeping in view the risks involved in a transaction, account or broking/business relationship.

b) Training encompassing applicable money laundering laws and recent trends in money laundering activity as well as the Stock Broker and DP's policies and procedures to combat money laundering shall be provided to all the staff members periodically in phases.

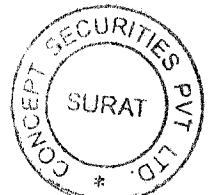
c) A threshold limits for particular group of accounts shall be prescribed and staff shall pay particular attention to the transactions which exceed these limits. The threshold limits shall be reviewed annually and changes, if any, conveyed to Staff for monitoring.

d) The Stock Broker and DP's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. The compliance function shall provide an independent evaluation of the Stock Broker & DP's own policies and procedures, including legal and regulatory requirements. Concurrent/Internal Auditors shall specifically check and verify the application of KYC procedures at the Member's end and

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comment on the lapses observed in this regard. The compliance in this regard shall be put up before the board on half yearly intervals.

Internet Trading Facility

After proper customer acceptance & identification procedures for opening of trading account, if client requires IBT/Wireless facility, a written request shall be taken if he has not opted for said facility through KYC.

We make sure that such clients are literate and have understood the rights and obligation with regard to Internet/wireless Trading.

Employee Hiring & Training

All the proposed application for employment shall be taken only from the person who have valid reference of our existing staff and /or have relations with the present staff and directors. It is prudent to also verify education and employment information which uniquely qualifies candidates for the position. In addition, it is strongly recommended that reference checks be completed prior to making the hiring decision. Further, if employee is for the post of dealer, NCFM/BCSM certification shall also be verified as a condition of employment. It is strongly recommended that employment verification be completed within one week of making an offer of employment to any individual. It is strongly recommended that educational and NCFM/BCSM verifications be completed within one week of making an offer of employment to any individual. After completing all the above procedures and formalities of employee screening, the company shall appoint the employee with the negotiated terms and conditions.

Further, Employees are trained with regard to compliance & Operational requirement of broking & DP entities. Also regulatory knowledge w.r.t Depository, Stock Exchange, Money Laundering, etc are also imparted so that compliance & Business risk of Broker & DP are minimized.

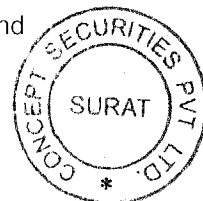
Customer Education

Implementation of KYC procedures requires Member to demand certain information from the customers that may be of personal in nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and

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purpose of collecting such information. Therefore, the front desk staff needs to handle such situations tactfully while dealing with customers and educate the customer of the objectives of the KYC programme. The Member shall also be provided specific literature/pamphlets to educate customers in this regard.

Record Keeping

As per Rule 3 of the Rules notified by Notification No. 9/2005 , Intermediary shall maintain a record of, -

- A. all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
- B. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
- C. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
- D. all suspicious transactions whether or not made in cash

The records of all transactions are required to be maintained **for a period of five years** from the date of cessation of the transactions with their clients.

Appointment of Principal Officer & Designated Director

To designate an officer as "Principal Officer" and intimate the details to the Financial Intelligence Unit-India on an immediate basis. The Principal Officer shall have timely access to customer identification data and other CDD information, transaction records and other relevant information. The Principal Officer shall also have access to and be able to report to senior management above his next reporting level or the board of directors.

In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also require to designate a person as a 'Designated Director'. In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying

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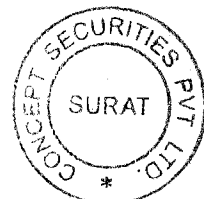
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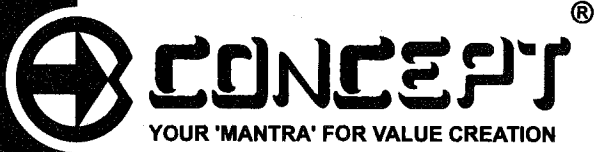
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monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

For Concept Securities Pvt. Ltd.


Director

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NSE
MCX-SX

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