



STEWART & MACKERTICH WEALTH MANAGEMENT LTD.

4, Lee Road, Vaibhav, Kolkata – 700 020

Tel: (91 33) 3051 5400 / 4011 5400 Fax: (91 33) 2289 3401

Policy Framework and Procedure Manual

Of

Stewart & Mackertich Wealth Management Limited
(Stock Broking & Depository Services)

For

Prevention Of Money Laundering (PMLA) /
Combating Financing Of Terrorism (CFT)

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BACKGROUND:

Money Laundering (ML) may be defined as cleansing of dirty money obtained from legitimate or illegitimate activities including drug trafficking, terrorism, organized crime, fraud and many other crimes with the objective of hiding its source and rendering it in legally usable form. It is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. The process of money laundering involves creating a web of financial transactions so as to hide the origin of and true nature of these funds.

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. It is in short a cancer, existing for one purpose only, to make crime and illegal activity worthwhile.

The General Assembly of United States adopted the political declaration and global program of action in 1990 in its worldwide drive against money laundering and also enjoined upon member states to adopt legislation and program against laundering on a national level.

To combat money-laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the "Act") on January 17, 2003.

The basic objective of the Act is three fold, viz.:

- ❖ To prevent, combat and control money laundering.
- ❖ To confiscate and seize the property obtained from the laundered money.
- ❖ To deal with any other issue connected with money laundering in India.

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) and will now be treated as a scheduled offence under Schedule B of the PMLA.

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As per the provisions of the PMLA, 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, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act, 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.

Securities and Exchange Board of India (hereinafter referred to as SEBI) vide its Circular Ref No.: ISD/CIR/RR/AML/1/06 dated January 18, 2006 laid down broad guidelines on Anti Money Laundering Standards. As per the Circular, all the intermediaries registered with SEBI under Section 12 of the SEBI Act were advised to ensure that a proper policy framework on anti-money laundering measures was put in place. This was essentially in conformity with the Prevention of Money Laundering Act, 2002 and the Rules framed there under by SEBI.

In the light of Circulars issued by National Stock Exchange of India Ltd (hereinafter referred to as "NSE") and Circulars issued by Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE"), in continuation to the new circular of Securities and Exchange Board of India (hereinafter referred to as "SEBI") SEBI Circular No. ISD/AML/CIR-1/2009 dated September 01, 2009 has issued additional requirements to be fulfilled and clarifications with regard to existing requirements mentioned in the Master Circular on Anti Money Laundering (AML) issued vide SEBI circular no. ISD/AML/CIR-1/2008 dated December 19, 2008.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

For the purpose of implementing the provisions of Prevention of Money Laundering Act and Guidelines issued thereunder, Stewart & Mackertich Wealth Management Limited (hereinafter "the Company") have adopted a Policy Framework on Anti Money Laundering and Combating Financing of Terrorism.

THE MONEY LAUNDERING PROCESS:

Money can be obtained illegally from various criminal activities like drug trafficking, terrorism, organized crime and fraud. As criminals attempt to conceal the true origin and ownership of





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the proceeds of their criminal activities and provide a legitimate cover for their source of income they usually follow three stages:

- (A) **PLACEMENT:** This is where the criminal proceeds are first injected into the system. It is also the stage where those who are educated, briefed and alert to the process of money laundering, have the best chance of detecting what is happening and are thus best able to thwart and disrupt the process at the outset. At this stage, very often larger amounts of money are divided and distributed into smaller amounts to avoid suspicion and then paid into a series of bank accounts, arose to purchase securities, or life policies or other assets, sometimes many kinds of assets, all to achieve the prime purpose of being able to inject the tainted money or value into the legitimate mainstream financial/business system. Eg: A criminal having huge crime proceeds in form of cash, can deposit this cash in bank accounts maintained with difference banks, in the name of his relatives, friends and associates, in small amounts.
- (B) **LAYERING:** After the injection has taken place and the tainted money or value has entered and become mixed up in the main mass of money or value in the financial system, it is spun around different accounts, different names, different ownerships, plus different instruments and investments. All these movements are designed to disguise the origins of the money or value and thus confuse those who might be attempting to trace the money or value back to the root, criminal source. Facilitated by the birth of electronic funds transfer technology the fast movement of funds through multiple jurisdictions often with different laws, creates major problems for investigators of identification, access and ultimately achieving successful prosecutions.
- (C) **INTEGRATION:** Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds. Integration means the reinvestment of those funds in an apparently legitimate business so that no suspicion of its origin remains and to give the appearance of legitimizing the proceeds.

MONEY LAUNDERING IN INDIA:

With the growing financial sector, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics trafficking, illegal trade in gems, smuggling, corruption and income tax evasion. Large portions of illegal proceeds are laundered through the alternative remittance system called "hawala". Under this system,





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individuals transfer funds from one country to another or from one state to another, often without the actual movement of currency.

PREVENTION OF MONEY LAUNDERING ACT, 2002:

To combat money-laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the "Act") on January 17, 2003.

Section 3 of the Prevention of Money Laundering Act, 2002 defines the offences or laundering. In terms, of this section whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of an offence of money laundering.

The term proceeds of crime have been defined under Section 2(u) of the Act viz: "Any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property."

The said section broadly states that if a person is involved in the process of projecting proceeds of crime as untainted property then he shall be guilty of money laundering, for indulging in the said process of the following three elements / activities shall play a very important role:

Possession or ownership of the proceeds of crime or property acquired from proceeds of crime, which is being reflected as untainted property.

Transactions relating to proceeds of crime like converting its form.
Concealment of the original transaction and/or creating ghost transactions from concealing actual transactions. E.g. Possessing Benami Property, Unexplained cash credits, unexplained expenditure, bogus or fictitious accounts, unexplained investments.

APPLICABILITY:

The Prevention of Money Laundering Policy applies to Stewart & Mackertich Wealth Management Ltd.

In terms of rules framed under the Act, inter alia, every intermediary shall:

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- a) Maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month.
- b) Furnish information of transactions referred to in Clause (a) to the Director within such time as may be prescribed.
- c) Verify and maintain the records of the identity of all its Clients, in such a manner as may be prescribed

As per provision of section 2(n) of the Act, term "Intermediary" means:

"A stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, 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 Act, 1992 (15 of 1992).

Further in terms of rules made under the Act, all intermediaries 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 transaction where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- d) All suspicious transactions whether or not made in cash; identity and current address or addresses including permanent address or addresses of the Client, the nature of business of the Client and his financial status; Provided that where it is not possible to verify the identity of the Client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary, as the case may be, shall verify the identity of the Client within a reasonable time after the account has been opened or the transaction has been executed



