

VOLUNTARY

FAQ on Anti Money Laundering

I. About money laundering

1. What is money laundering?

Money laundering refers to conversion of money illegally obtained to make it appear as if it originated from a legitimate source. Money laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drugs/arms trafficking, terrorism and extortion. All crimes that produce a financial benefit give rise to money laundering.

2. How does money laundering affect business?

The integrity of the banking and financial services market place depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

If funds from criminal activity can be easily processed through a particular institution - either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds - the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

3. What is the connection with society at large?

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the

democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

II. Laws in India related to Anti money laundering

There is an Act called Prevention of Money Laundering Act 2002 (PMLA). The purpose of this act is to prevent the financing of terrorism and to prevent laundering of money i.e. to legalize or officialize or canalize the money generated from illegal activities like drug trafficking, organized crimes, hawala rackets and other serious crimes. This act is a part of the Global measures being taken by all the countries under the initiatives of UN agencies. It is applicable to all SEBI Registered brokers/sub-brokers and other financial institution who are dealing in any kind of financial assets. It is an obligation of the entities to whom this Act is applicable, to report certain kind of transactions routed through them to FINANCIAL INTELLIGENCE UNIT, a department specially set up to administer this Act under the Ministry of Finance.

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

SEBI has issued master circular no. ISD/AML/CIR-1/2010 dated February 12, 2010. You are requested to go through the same for more details.

III. Client obligation related to Anti money laundering

1. What has this got to do with opening Trading/Demat account?

The first step in the laundering process for criminals is to get their money into an account with a Bank/Financial intermediaries, often using a false identity and address. The funds so deposited will be transferred to other accounts locally or abroad or used for buying goods or services. This transaction would appear to be like any legally earned money and becomes difficult to trace it back to its criminal past. SEBI registered Intermediary under law should not only prevent this, but should stop criminals who wish to use the banking/Financial channel to launder the ill-gotten money from illegal/criminal activities.

2. Why does the Kotak Securities Limited (KSL) ask you for proof of your Identity, Signature and Address?

The identification of a customer is a very critical process with a view to protect the customer interests by preventing from fraudsters who may use the name, address and forge signature to undertake benami / illegal business activities. This also helps to safeguard the intermediaries from being unwittingly used from the transfer or deposit of funds derived from criminal activity or for financing of terrorism. Identification of customers will also help to control financial frauds, identify money laundering and suspicious activities. The Prevention of Money-Laundering Act, 2002 (PMLA) was notified on July 1, 2005. As per the provisions of PMLA Act and as per the circular issued by Securities and Exchange Board of India (SEBI) on 18th January 2006 and subsequent circulars issued in this regard, every market intermediaries registered with SEBI is obligated to adopt a policy framework with respect to anti-money laundering measures. KSL is inter alia a stock broker, depository participant and a portfolio manager registered with SEBI and needs to adhere to the same.

3. How could money laundering affect you as a customer?

A key defence against money laundering is to prevent accounts being opened in false identities. Anyone wishing to open an account will therefore be asked for proof of their identity, address and signature. These documents have to be essentially obtained irrespective of the type of account to be opened and the purpose for which the account is opened for.

The fact that these documents are asked for opening of account does not mean that you are suspected of money laundering. Criminals try to appear to be normal law-abiding customers, for example they may try to open a number of accounts using small amounts of money. Hence it is necessary to identify all prospective account holders or customers. Anybody including a criminal could falsely use your identity, if these identity documents are not obtained.

4. What proof of identity will you need?

The best identification documents are those which are issued by a Government authority, which should have a photograph, address and signature. You may provide one single document which can establish your identity, address and the signature or two or

more documents. For an individual, documents like copy of the Passport, Election Identity Card, Driving Licence, Permanent Account Number (PAN) card, etc. would be sufficient for the purpose of establishing the identity, address and signature. Similarly, for other entities like firms, companies, trusts, documents like - Deed, Memorandum & Articles of Association, Certificate of Incorporation etc. would be applicable and the branch / sales staff / call centre would be able to help you in providing the details of the list of /approved documents. As per SEBI regulations, KSL is under obligation to obtain sufficient information in order to identify persons who beneficially own or control securities account. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

5. What if you cannot provide the documents suggested?

If you cannot provide the basic KYC documents the company will not be in a position to open your account.

6. What are the responsibilities of a client related to money laundering?

KSL has to 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 customer, its business and risk profile, taking into account, where necessary, the customer's source of funds.

Clients should provide KSL with updated details of their occupation, source of income and give details of their annual income and net worth on annual basis. Further, they should provide explanation for any trading pattern observed by KSL in its routine course.

7. Help us to help you

Please help us to prevent crime, tax evasion and the laundering of the proceeds of such crime or evasion by being patient when staff asks you to provide documents to prove your identity.

You can also help prevent crime against yourself and others by maintaining the confidentiality of your account details and identity documentation.