



Prevention of Money Laundering Act 2002 and Security Markets

Trends of Today and Tomorrow

By Jayesh B. Shah, Director, Prism Cybersoft Private Limited

Disclaimer

This purpose of this presentation is educational and is made only for understanding of Prevention of Money Laundering and its related aspects in the securities business.

Readers are advised to do their own research while applying the underlying concepts to their business.

The creator/ presenter does not make any representation/ warranty regarding any statement herein. Independent ascertainment of facts is strongly advised.

Prevention of Money-Laundering Act, 2002

- The Prevention of Money-laundering Act, 2002 (PMLA) aimed at combating money laundering in India with three main objectives –
 - to prevent and control money laundering
 - to confiscate and seize the property obtained from laundered money
 - to deal with any other issue connected with money laundering in India.
- The PMLA 2002 came into force from 1st July, 2005.

PMLA 2002 Provisions:

- The Act provides that 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 offences of money-laundering.
- For the purpose of money-laundering, the PMLA identifies certain offences under the Indian Penal Code, the Narcotic Drugs and Psychotropic Substances Act, the Arms Act, the Wild Life (Protection) Act, the Immoral Traffic (Prevention) Act and the Prevention of Corruption Act, the proceeds of which would be covered under this Act.
- To combat the menace of aforesaid offences of money laundering, the Government is entrusting the work relating to investigation, attachment of property/proceeds of crime relating to the scheduled offences under the Act and filing of complaints etc. to the Directorate of Enforcement, which currently deals with offences under the Foreign Exchange Management Act.

The PMLA applicable to

- Every banking company, financial institution (which, inter alia, includes a chit fund company,
- A co-operative bank,
- A housing finance institution and a non-banking financial company)
- 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 Securities and Exchange Board of India Act, 1992)

All Entities covered under PMLA 2002

- Shall have to maintain a record of all transactions,
- The nature and value of which is being prescribed in the Rules under the PMLA, which are concurrently being notified. Such transactions include all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency,
- 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 one calendar month
- All suspicious transactions whether or not made in cash. Information of the afore-said transactions
- These shall have to be furnished to the Director, Financial Intelligence Unit, India (FIU-IND).

The Punishment

- The punishment for offences under the said Act is rigorous imprisonment for a term from three years to seven years and a fine which may extend to five lakh rupees. Where the money laundering offence relates to a drug offence under the NDPS Act, the penalty can extend to a maximum of 10 years.
- The Act provides that every order of attachment of property involved in money-laundering, order of seizure of property/records etc. shall be forwarded along with a complaint or application to the Adjudicating Authority within a period of thirty days. Such order would require to be confirmed by the Adjudicating Authority within a certain time-limit. The Adjudicating Authority is being constituted separately. The appeal against the orders of the Director or the Adjudicating Authority can be filed before the Appellate Tribunal being set up under the PMLA.

Securities Market

- The securities industry plays a key role in the global economy since Participants range is wide
- New products and services are developed constantly based on investor demands & market conditions, and advances in technology.
- Product offerings are vast, and many are complex devised for sale to the general public and others tailored to the needs of a single purchaser.
- Many transactions are effected electronically and across international borders.
- Some of the features its speed in executing transactions, its global reach, and its adaptability.
- These can make it attractive to those who would abuse it for illicit purposes, including money laundering and terrorist financing.

- 
- The securities sector is perhaps unique among industries in that it can be used both to launder illicit funds obtained elsewhere, and to generate illicit funds within the industry itself through fraudulent activities.
 - Transactions and techniques associated with money laundering and the specific predicate securities offences are often difficult to distinguish, which is why specific indicators
 - Some areas of vulnerability (for example, rogue employees) are not peculiar to the securities industry
 - Suspicious transaction reporting in the sector remains relatively low due to lack of awareness and insufficient securities-specific indicators.

Why Securities Market ?

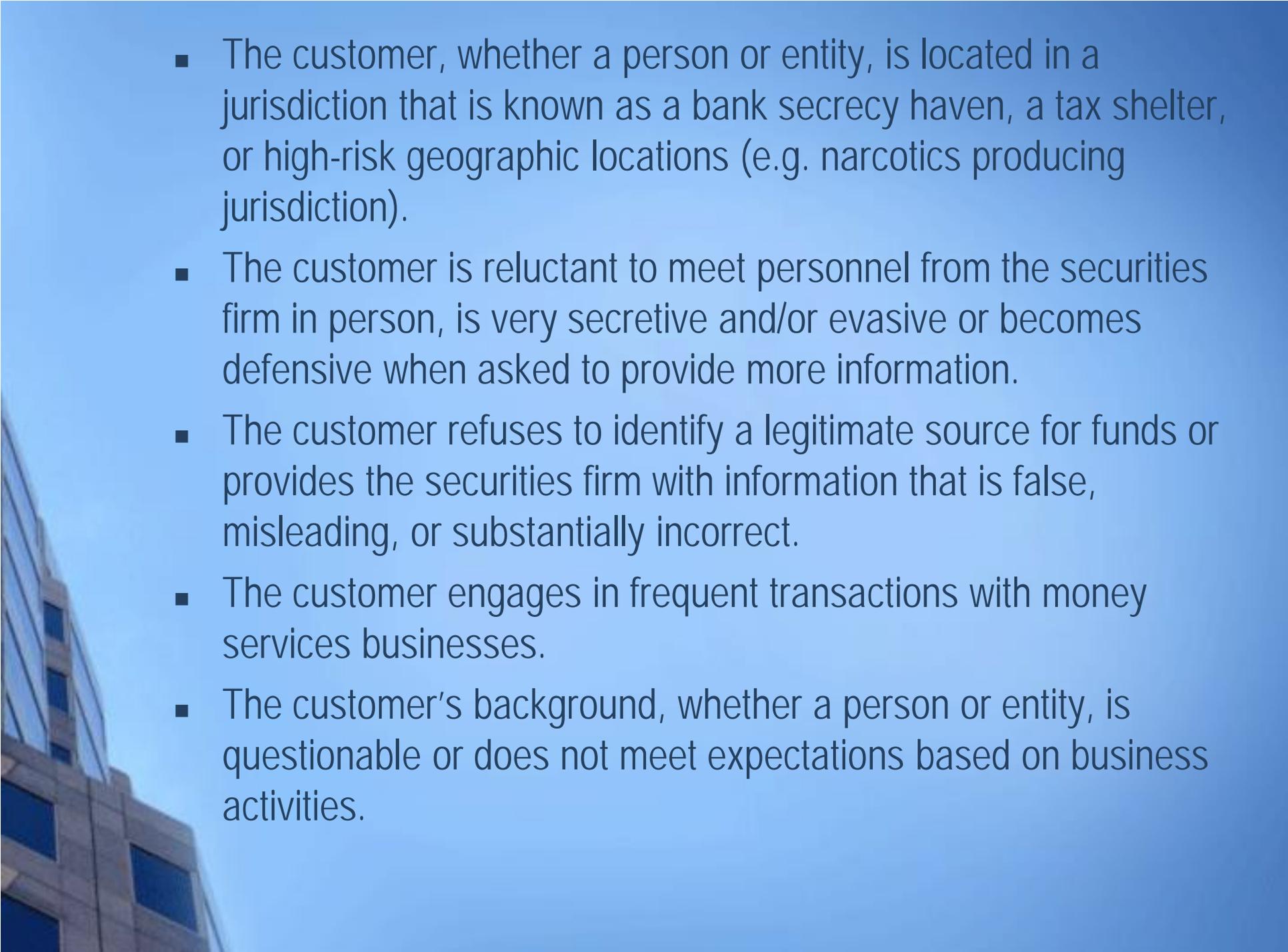
- The securities industry, along with banking and insurance, is one of the core industries through which persons and entities can access the financial system.
- This access provides opportunities for criminals to misuse the financial system to engage in money laundering (ML) and terrorist financing (TF).

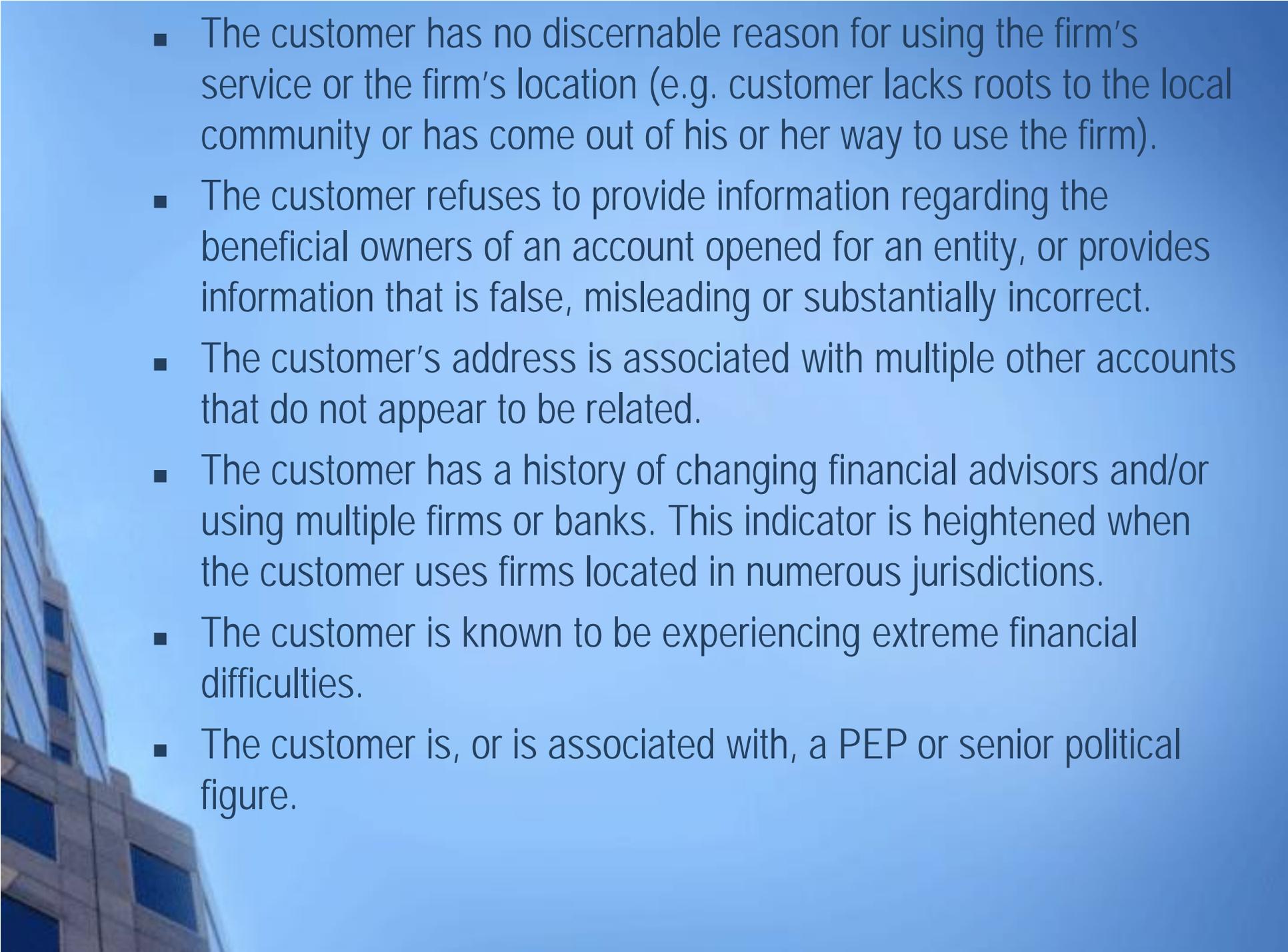
Suspicious Indicators:

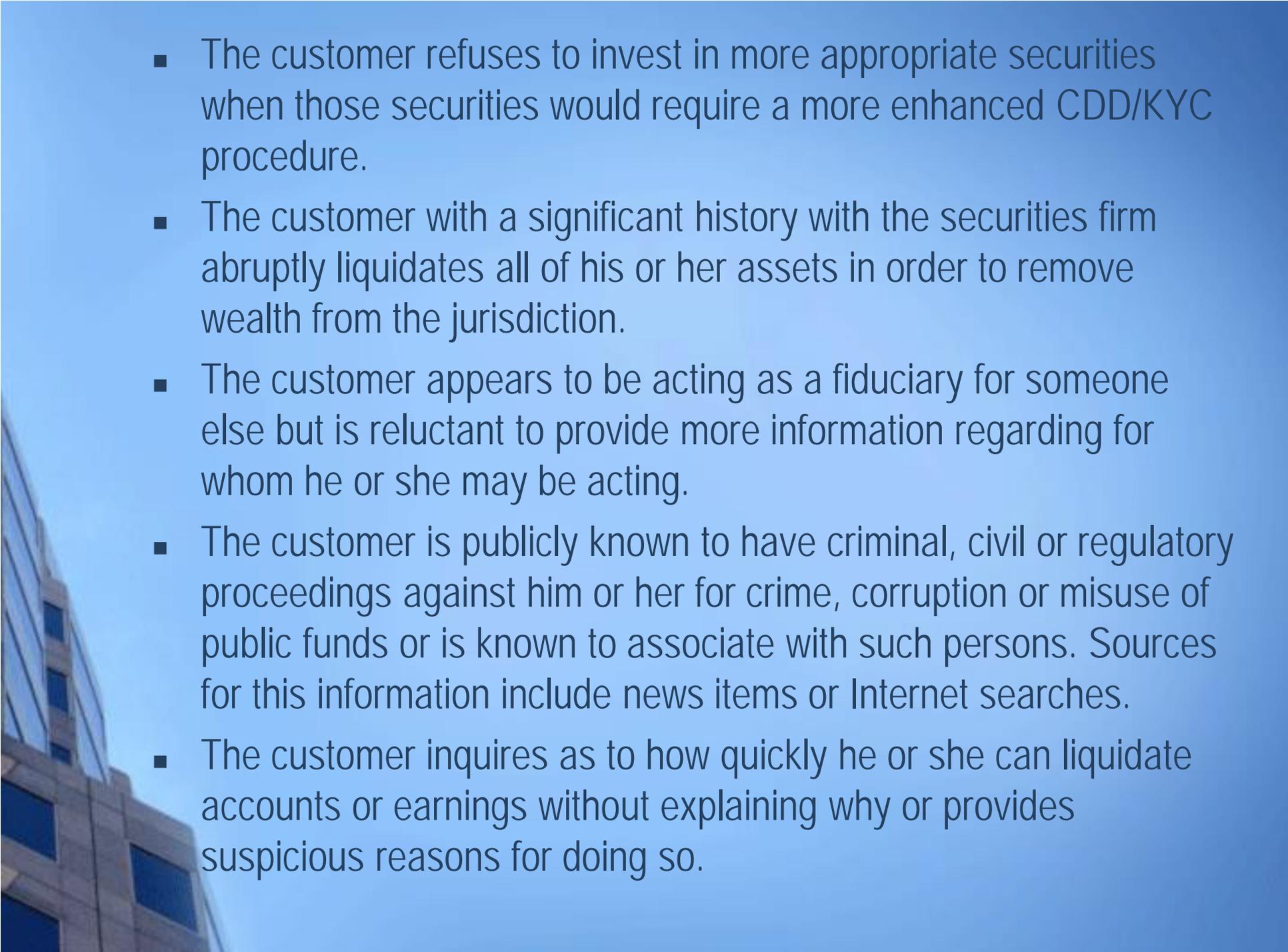
- Customer Due Diligence
- Fund Transfers and/or Deposits
- Bearer Securities
- Unusual Securities Transactions and Account Activity
- Insurance Products (applicable to jurisdictions where some insurance products can be considered securities)
- Activity that is Inconsistent with the Customer's Business Objective or Profile
- Rogue Employees
- Insider Trading
- Market Manipulation, including Penny Stocks
- Securities Offering Fraud

Customer Due Diligence

- The customer provides the securities firm with unusual or suspicious identification documents that cannot be readily verified or are inconsistent with other statements or documents that the customer has provided. This indicator may apply to account openings and to interaction subsequent to account opening, such as wire transfers.
- During the account opening process, the customer refuses to provide information to complete CDD/KYC (e.g. occupation, prior financial relationships, etc.).
- The customer, whether a person or entity, is reluctant to provide the securities firm with complete information about the nature and purpose of the customer's business, prior financial relationships, anticipated account activity, the entity's officers and directors or business location.

- 
- The customer, whether a person or entity, is located in a jurisdiction that is known as a bank secrecy haven, a tax shelter, or high-risk geographic locations (e.g. narcotics producing jurisdiction).
 - The customer is reluctant to meet personnel from the securities firm in person, is very secretive and/or evasive or becomes defensive when asked to provide more information.
 - The customer refuses to identify a legitimate source for funds or provides the securities firm with information that is false, misleading, or substantially incorrect.
 - The customer engages in frequent transactions with money services businesses.
 - The customer's background, whether a person or entity, is questionable or does not meet expectations based on business activities.

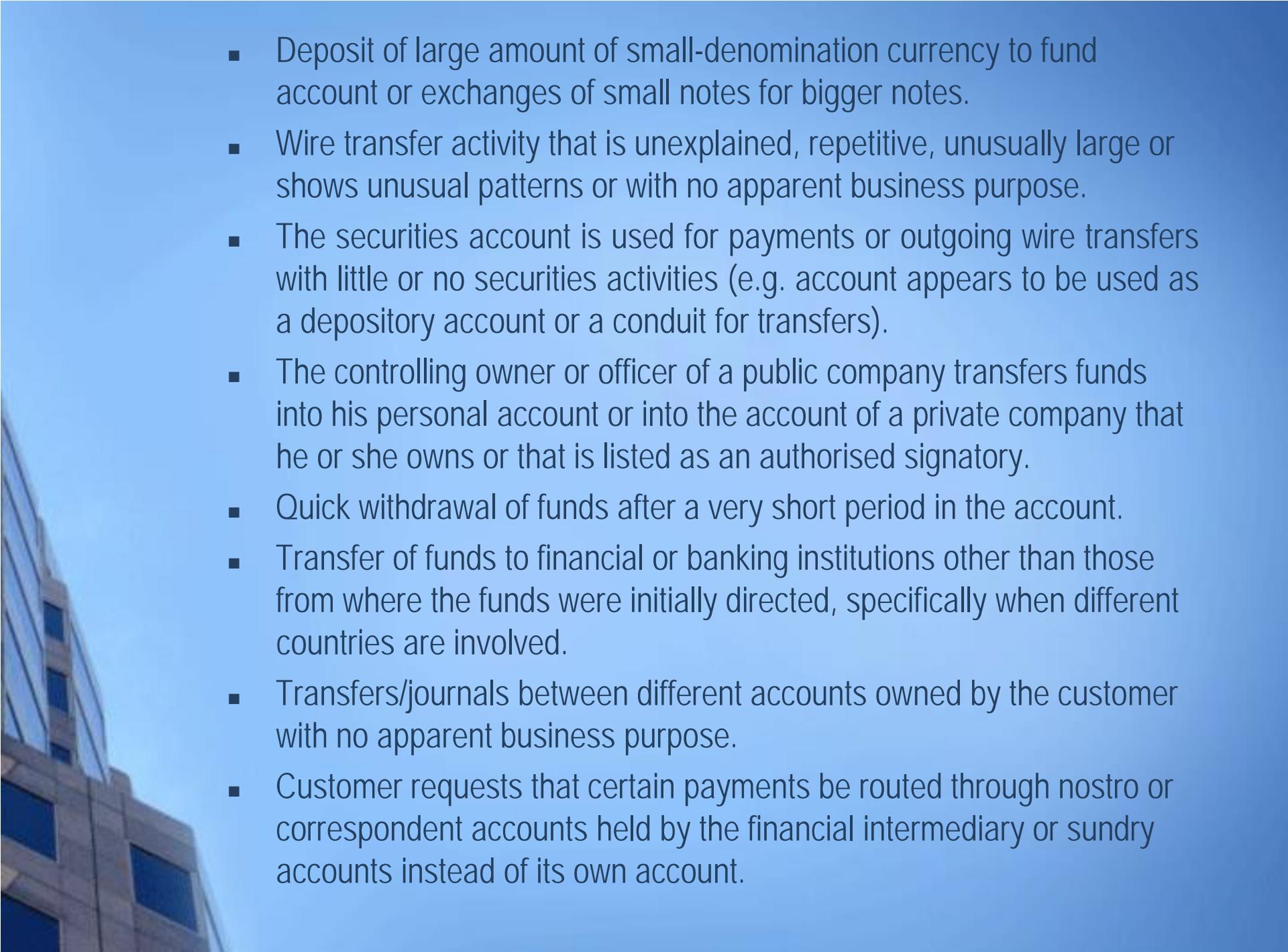
- 
- The customer has no discernable reason for using the firm's service or the firm's location (e.g. customer lacks roots to the local community or has come out of his or her way to use the firm).
 - The customer refuses to provide information regarding the beneficial owners of an account opened for an entity, or provides information that is false, misleading or substantially incorrect.
 - The customer's address is associated with multiple other accounts that do not appear to be related.
 - The customer has a history of changing financial advisors and/or using multiple firms or banks. This indicator is heightened when the customer uses firms located in numerous jurisdictions.
 - The customer is known to be experiencing extreme financial difficulties.
 - The customer is, or is associated with, a PEP or senior political figure.

- 
- The customer refuses to invest in more appropriate securities when those securities would require a more enhanced CDD/KYC procedure.
 - The customer with a significant history with the securities firm abruptly liquidates all of his or her assets in order to remove wealth from the jurisdiction.
 - The customer appears to be acting as a fiduciary for someone else but is reluctant to provide more information regarding for whom he or she may be acting.
 - The customer is publicly known to have criminal, civil or regulatory proceedings against him or her for crime, corruption or misuse of public funds or is known to associate with such persons. Sources for this information include news items or Internet searches.
 - The customer inquires as to how quickly he or she can liquidate accounts or earnings without explaining why or provides suspicious reasons for doing so.

- The customer opens an account or purchases a product without any regard to loss, commissions or other costs associated with that account or product.
- The customer has commercial or other types of relationships with risky persons or institutions.
- The customer acts through intermediaries, such as money managers or advisers, in order not to have his or her identity registered.
- The customer exhibits unusual concern with the securities firm's compliance with government reporting requirements and/or the firm's AML/CFT policies.
- The customer is reluctant to provide the securities firm with information needed to file reports or fails to proceed with a transaction once asked for documentation or learns of any recordkeeping requirements.
- The customer is interested in paying higher charges to the securities firm in order to keep some of his or her information secret.
- The customer tries to persuade an employee of the securities firm not to file a required report or not to maintain required records.
- The customer funds deposits, withdraws or purchases financial or monetary instruments below a threshold amount in order to avoid any reporting or recordkeeping requirements imposed by the jurisdiction.
- The customer requests that account openings and closings in his or her name or in the name of family members be done without producing a paper trail.
- Law enforcement has issued subpoenas regarding a customer and/or account at the securities firm.

Fund Transfers and/or Deposits

- Wire transfers are sent to, or originate from, financial secrecy havens, tax shelters or high-risk geographic locations (e.g. jurisdictions known to produce narcotics/psychotropic drugs or to be related to terrorism) without an apparent business reason or connection to a securities transaction.
 - Wire transfers or payments to or from unrelated third parties (foreign or domestic) or where the name or account number of the beneficiary or remitter has not been supplied.
 - Many small, incoming wire transfers or deposits are made, either by the customer or third parties, using cheques, money orders or cash that are almost immediately withdrawn or wired out in a manner inconsistent with customer's business or history.
- Incoming payments made by third-party cheques or cheques with multiple endorsements.

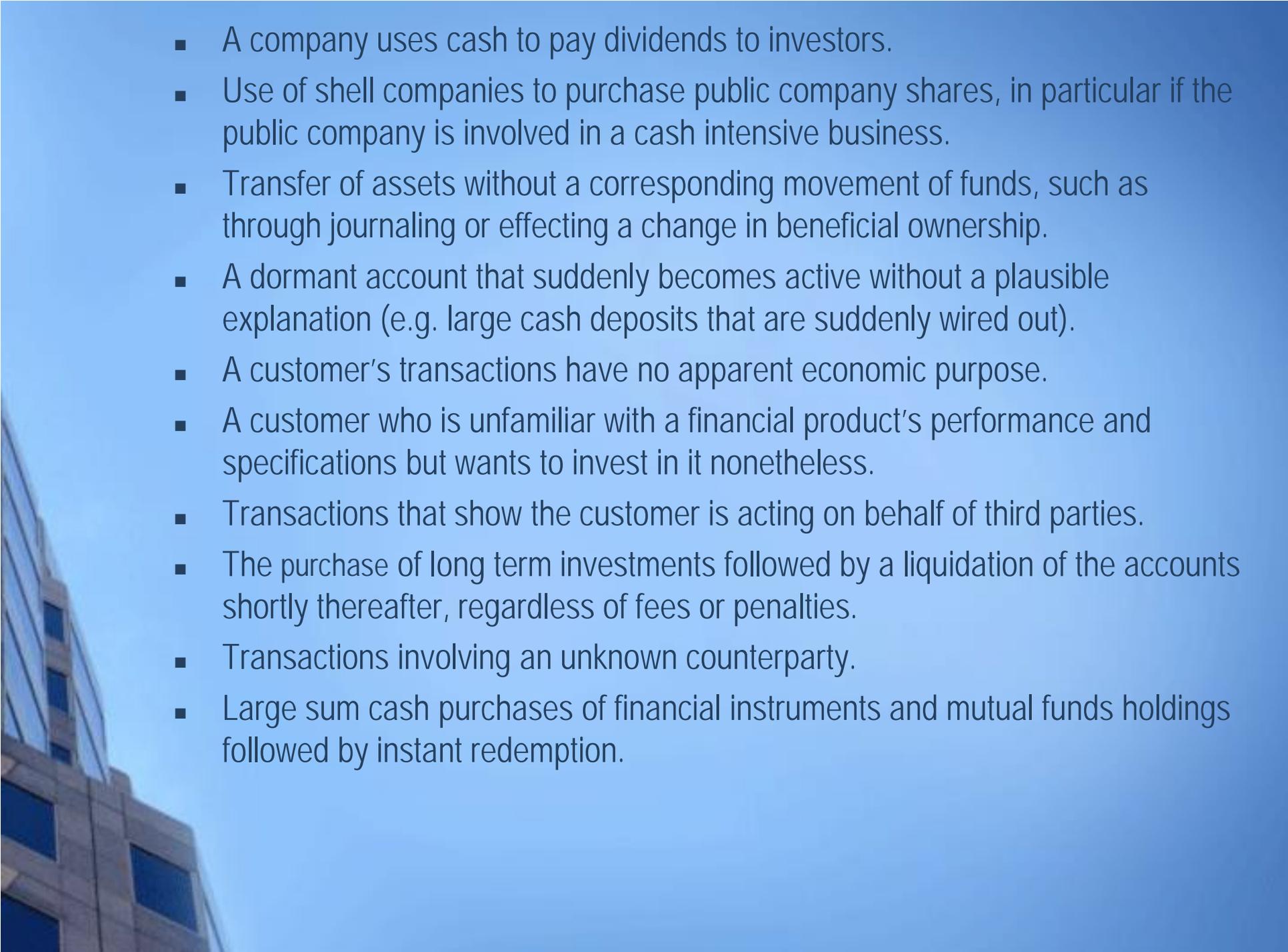
- 
- Deposit of large amount of small-denomination currency to fund account or exchanges of small notes for bigger notes.
 - Wire transfer activity that is unexplained, repetitive, unusually large or shows unusual patterns or with no apparent business purpose.
 - The securities account is used for payments or outgoing wire transfers with little or no securities activities (e.g. account appears to be used as a depository account or a conduit for transfers).
 - The controlling owner or officer of a public company transfers funds into his personal account or into the account of a private company that he or she owns or that is listed as an authorised signatory.
 - Quick withdrawal of funds after a very short period in the account.
 - Transfer of funds to financial or banking institutions other than those from where the funds were initially directed, specifically when different countries are involved.
 - Transfers/journals between different accounts owned by the customer with no apparent business purpose.
 - Customer requests that certain payments be routed through nostro or correspondent accounts held by the financial intermediary or sundry accounts instead of its own account.

Bearer Securities

- The customer requests cashing bearer securities without first depositing them into an account or frequently deposits bearer securities into an account.
- The customer's explanation regarding the method of acquiring the bearer securities does not make sense or changes.
- The customer deposits bearer securities together with a request to journal the shares into multiple accounts that do not appear to be related, or to sell or otherwise transfer ownership of the shares.

Unusual Securities Transactions and Account Activity

- Transaction where one party purchases securities at a high price and then sells them at a considerable loss to another party. This may be indicative of transferring value from one party to another.
- A customer's transactions include a pattern of sustained losses. This may be indicative of transferring value from one party to another.
- The purchase and sale of non-listed securities with a large price differential within a short period of time. This may be indicative of transferring value from one party to another.
- Payments effected by administrators and asset managers in cash, bearer cheques or other transferable instruments without indentifying who they are for or providing very little information regarding the underlying account holder or beneficiary.

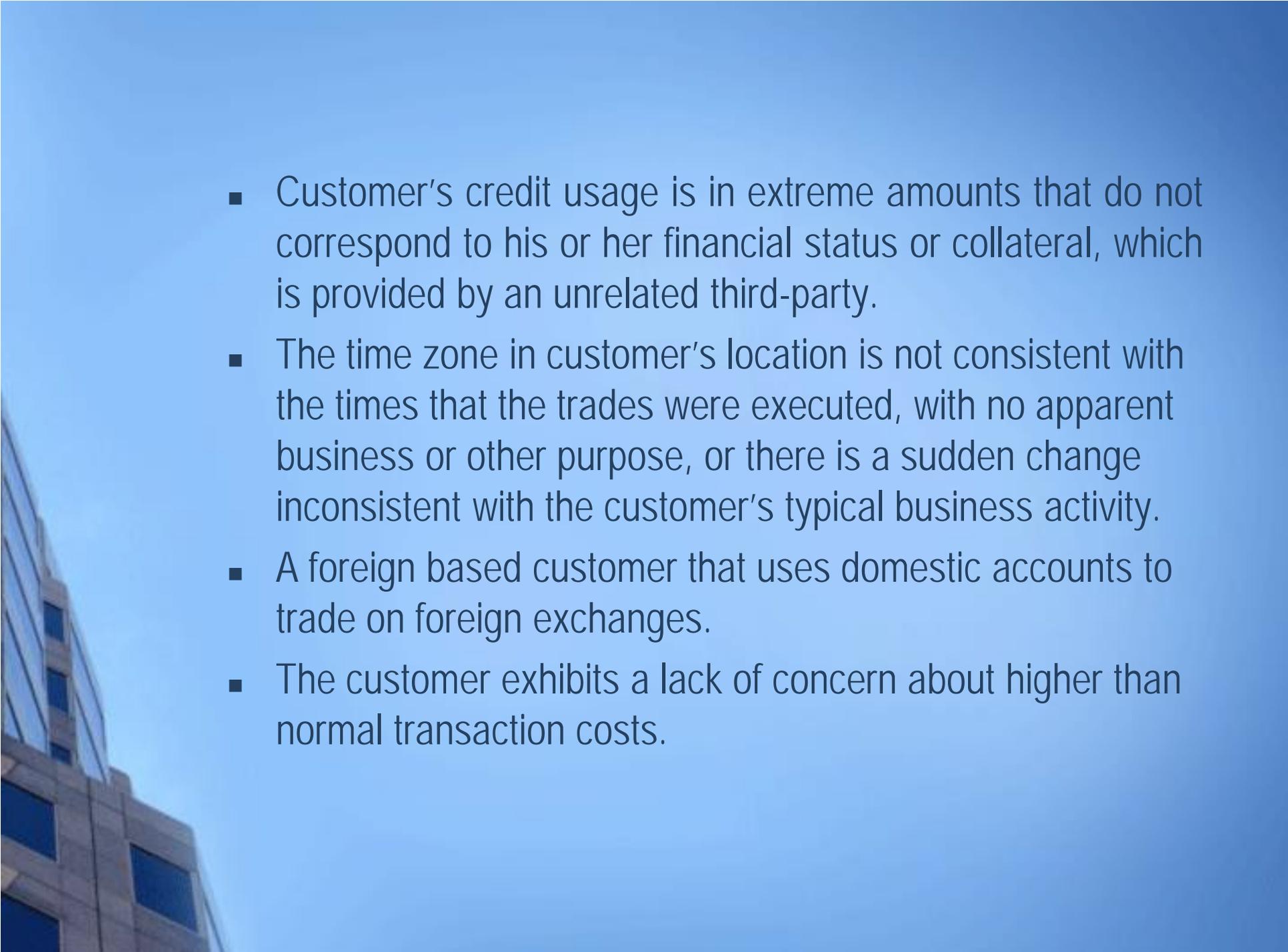
- 
- A company uses cash to pay dividends to investors.
 - Use of shell companies to purchase public company shares, in particular if the public company is involved in a cash intensive business.
 - Transfer of assets without a corresponding movement of funds, such as through journaling or effecting a change in beneficial ownership.
 - A dormant account that suddenly becomes active without a plausible explanation (e.g. large cash deposits that are suddenly wired out).
 - A customer's transactions have no apparent economic purpose.
 - A customer who is unfamiliar with a financial product's performance and specifications but wants to invest in it nonetheless.
 - Transactions that show the customer is acting on behalf of third parties.
 - The purchase of long term investments followed by a liquidation of the accounts shortly thereafter, regardless of fees or penalties.
 - Transactions involving an unknown counterparty.
 - Large sum cash purchases of financial instruments and mutual funds holdings followed by instant redemption.

Insurance Products (applicable to jurisdictions where some insurance products can be considered securities)

- The customer cancels an insurance contract and directs that the funds be sent to a third party.
- The customer deposits an insurance annuity check from a cancelled policy and immediately requests a withdrawal or transfer of the funds.
- The customer cancels an annuity product within the free-look period. Although this could be legitimate, it could also signal a method of laundering funds if accompanied with other suspicious indicators, such as purchasing the annuity with several sequentially numbered money orders and/or having a history of cancelling annuity products during the free look period.
- The customer opens and closes accounts with an insurance company only to reopen a new account shortly thereafter with the same insurance company, but with new ownership information.
- The customer purchases an insurance product with no concern for investment objective or performance.
- The customer purchases an insurance product with unknown or unverifiable sources of funds, such as cash, official cheques or sequentially numbered money orders.
- Securing a policy loan against the cash value soon after the policy is issued and repaying the loan with various monetary instruments or cash.

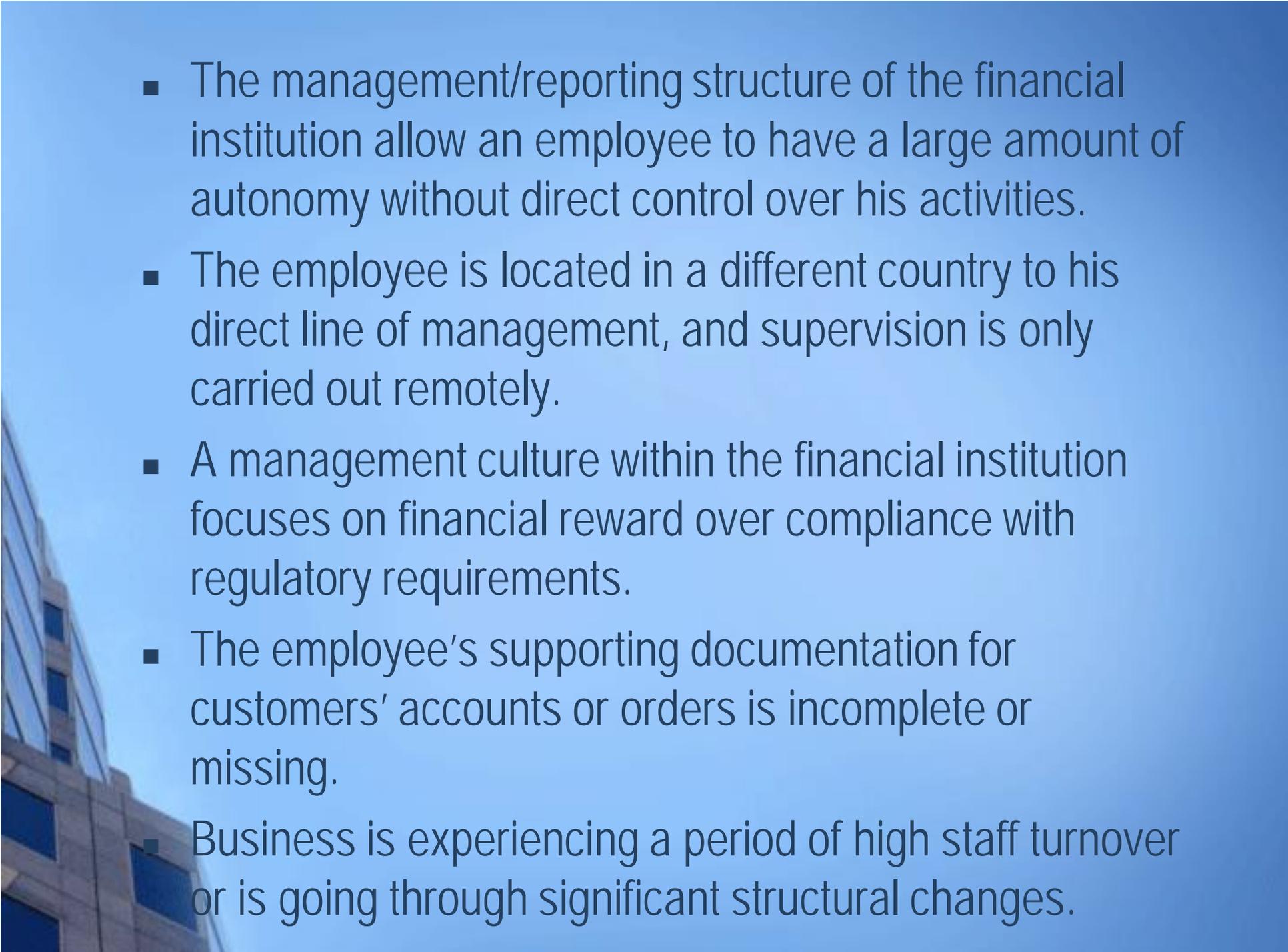
Activity that is Inconsistent with the Customer's Business Objective or Profile

- The customer's transaction patterns suddenly change in a manner that is inconsistent with the customer's normal activities or inconsistent with the customer's profile.
- There are unusual transfers of funds or journaling (i.e. book entries) among accounts without any apparent business purpose or among apparently unrelated accounts.
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities with no apparent business or other purpose.
- The customer's account is not used for its intended purpose (i.e. used as a depository account).
- The customer enters into a financial commitment that appears beyond his or her means.
- The customer begins to use cash extensively.
- The customer engaged in extremely complex transactions where his or her profile would indicate otherwise.

- 
- Customer's credit usage is in extreme amounts that do not correspond to his or her financial status or collateral, which is provided by an unrelated third-party.
 - The time zone in customer's location is not consistent with the times that the trades were executed, with no apparent business or other purpose, or there is a sudden change inconsistent with the customer's typical business activity.
 - A foreign based customer that uses domestic accounts to trade on foreign exchanges.
 - The customer exhibits a lack of concern about higher than normal transaction costs.

Rogue Employees

- The employee appears to be enjoying a lavish lifestyle that inconsistent with his or her salary or position.
- The employee is reluctant to take annual leave.
- The employee is subject to intense job-related demands, such as sales or production goals that may make him more willing to engage in or overlook behaviour that poses ML/TF risks.
- The employee inputs a high level of activity into one customer account even though the customer's account is relatively unimportant to the organisation.
- The employee is known to be experiencing a difficult personal situation, financial or other.
- The employee has the authority to arrange and process customer affairs without supervision or involvement of colleagues.

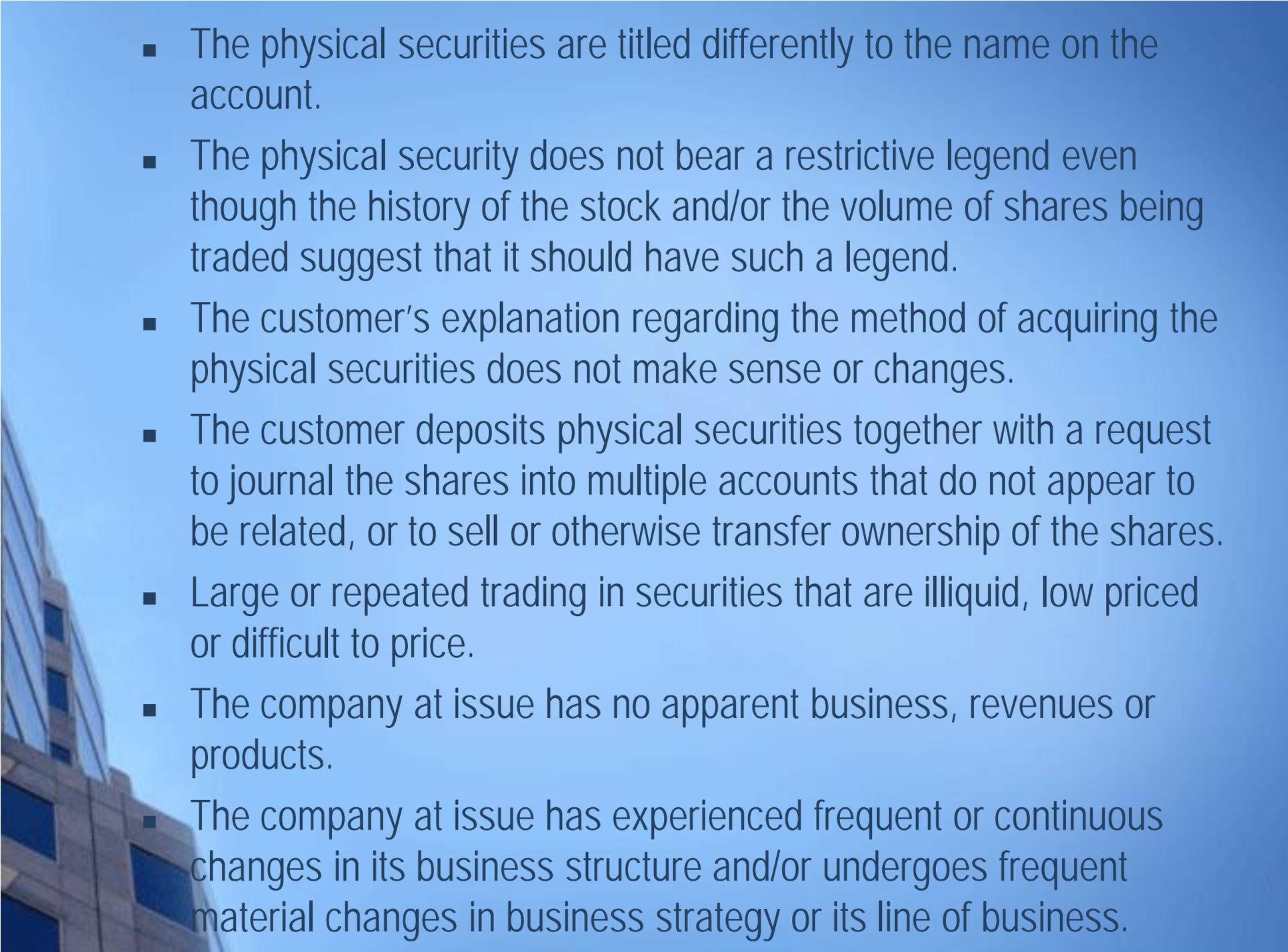
- 
- The management/reporting structure of the financial institution allow an employee to have a large amount of autonomy without direct control over his activities.
 - The employee is located in a different country to his direct line of management, and supervision is only carried out remotely.
 - A management culture within the financial institution focuses on financial reward over compliance with regulatory requirements.
 - The employee's supporting documentation for customers' accounts or orders is incomplete or missing.
 - Business is experiencing a period of high staff turnover or is going through significant structural changes.

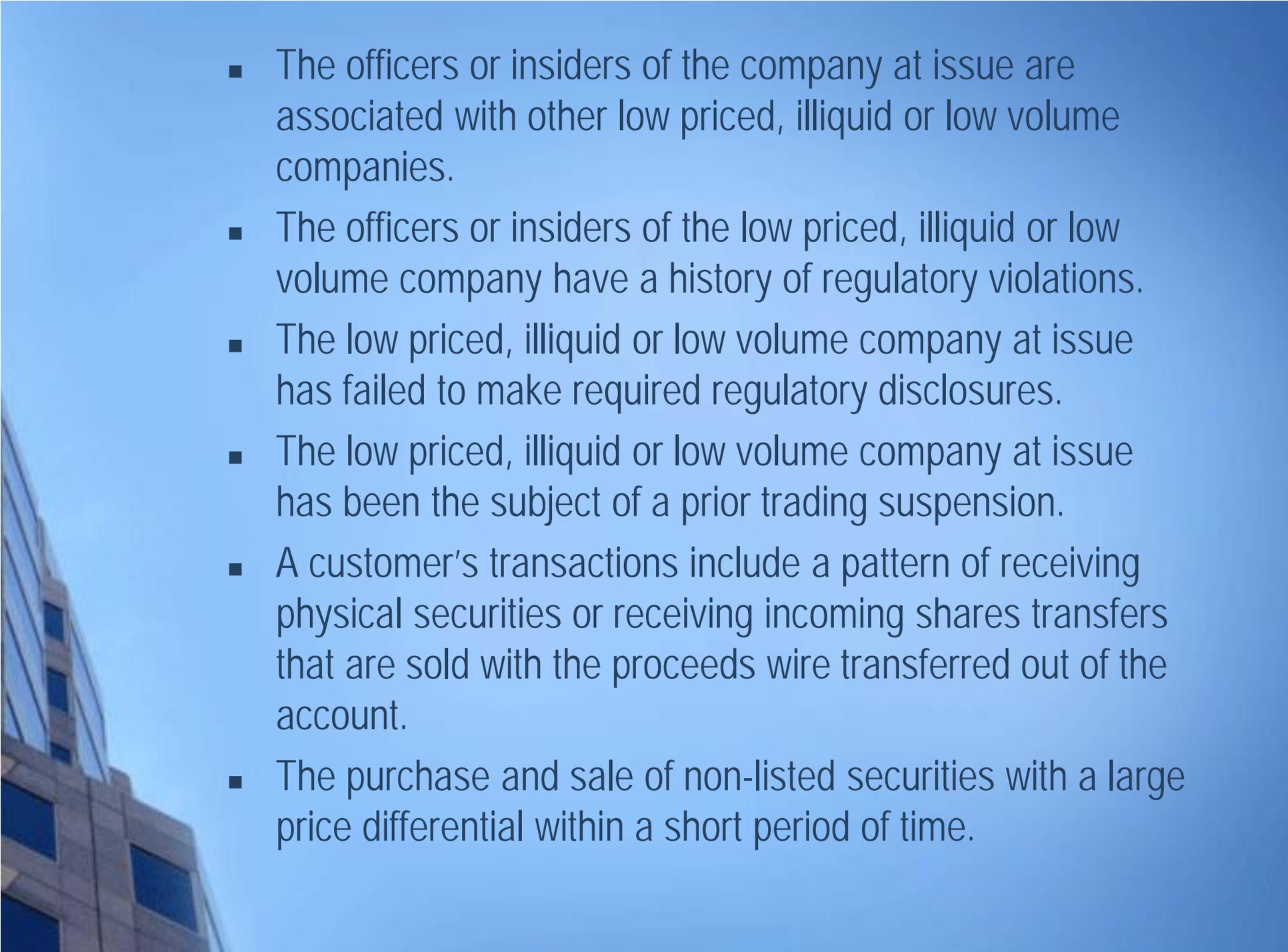
Insider Trading

- The customer makes a large purchase or sale of a security, or option on a security, shortly before news is issued that affects the price of the security.
- The customer is known to have friends or family who work for the securities issuer.
- A customer's trading patterns suggest that he or she may have inside information.

Market Manipulation, including Penny Stocks

- A customer engages in prearranged or other non-competitive securities trading, including wash or cross trades of illiquid or low priced securities.
- Securities or funds transfers between parties without an apparent relationship.
- Securities transactions occur across many jurisdictions, and in particular high risk jurisdictions.
- Two or more unrelated accounts at the securities firm trade an illiquid or low priced security suddenly and simultaneously.
- A customer journals securities between unrelated accounts for no apparent business reason.
- A customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason.
- Transactions between the same or related parties structured solely so that one side incurs a loss while the other incurs a gain.
- Transaction where one party purchases securities at a high price and then sells them at a considerable loss to another party.
- The customer deposits a large number of physical securities at the securities firm.

- 
- The physical securities are titled differently to the name on the account.
 - The physical security does not bear a restrictive legend even though the history of the stock and/or the volume of shares being traded suggest that it should have such a legend.
 - The customer's explanation regarding the method of acquiring the physical securities does not make sense or changes.
 - The customer deposits physical securities together with a request to journal the shares into multiple accounts that do not appear to be related, or to sell or otherwise transfer ownership of the shares.
 - Large or repeated trading in securities that are illiquid, low priced or difficult to price.
 - The company at issue has no apparent business, revenues or products.
 - The company at issue has experienced frequent or continuous changes in its business structure and/or undergoes frequent material changes in business strategy or its line of business.

- 
- The officers or insiders of the company at issue are associated with other low priced, illiquid or low volume companies.
 - The officers or insiders of the low priced, illiquid or low volume company have a history of regulatory violations.
 - The low priced, illiquid or low volume company at issue has failed to make required regulatory disclosures.
 - The low priced, illiquid or low volume company at issue has been the subject of a prior trading suspension.
 - A customer's transactions include a pattern of receiving physical securities or receiving incoming shares transfers that are sold with the proceeds wire transferred out of the account.
 - The purchase and sale of non-listed securities with a large price differential within a short period of time.

Securities Offering Fraud

- The customer opens numerous accounts for different legal entities that the customer controls.
- The customer receives many incoming cheques or wire transfers from unrelated third parties.
- The customer allocates incoming third party deposits among numerous accounts.
- The customer makes numerous outgoing payments to third parties close in time to when the customer receives many incoming third party cheques or wire transfers.
- The customer's profile does not suggest a legitimate business reason for receiving many third party deposits.
- The cheques or wire transfers note that the funds are for an investment.

STRESS ON IT PLATFORM

- Use of software by companies
- Issues on legalities and ethics
- Dabba / bucket/ spread Trading

Main types of software

- Front office / Trading Software
- Middle Office
- Back office / Admin and Accounts and ERP

Front office / Trading Software

- Trading Engine
- Algorithmic Trading
- High Frequency Trading System
- Delta Strategy

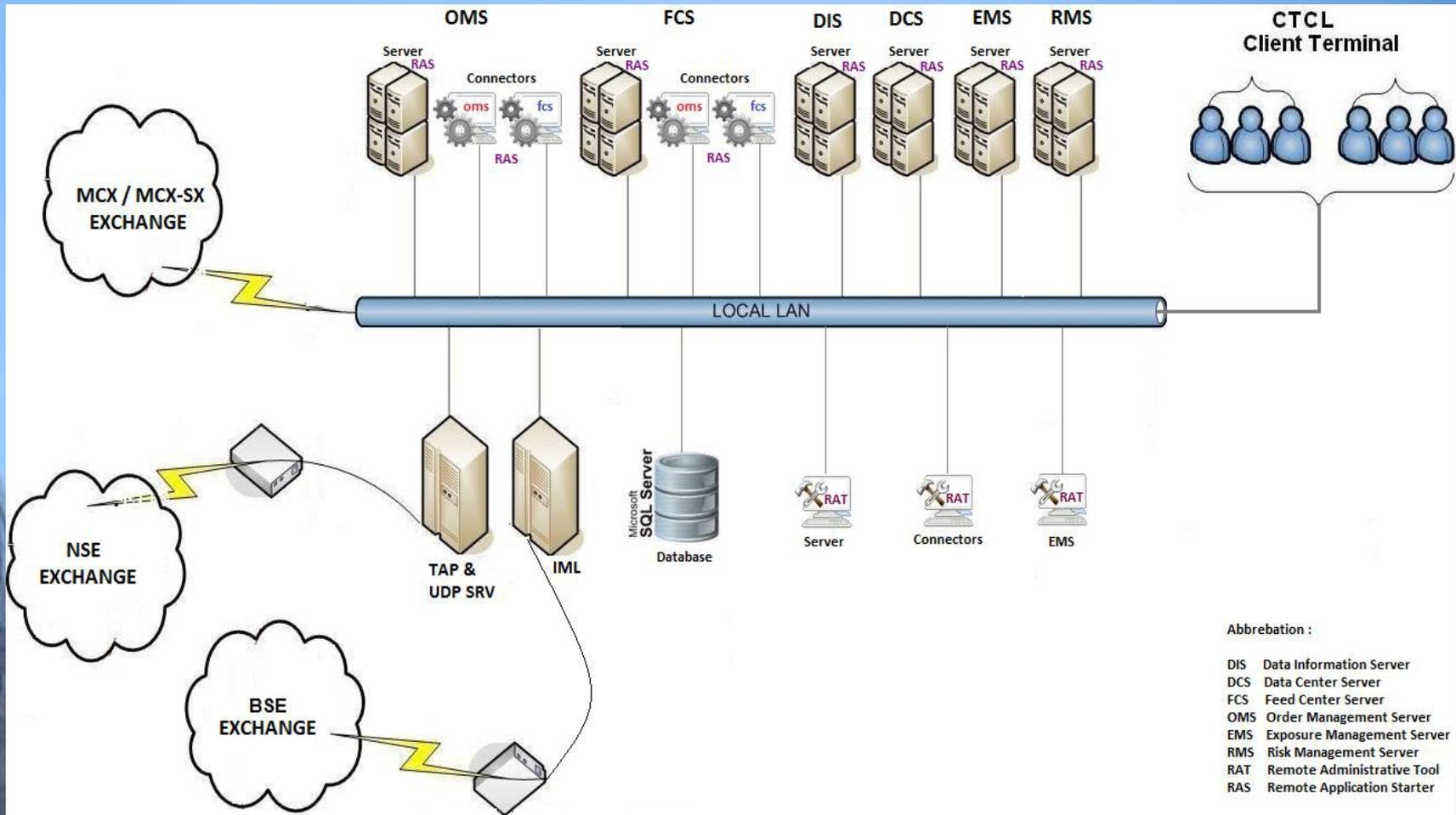
Middle office

- Risk Monitoring System
- Limits
- Margin utilised

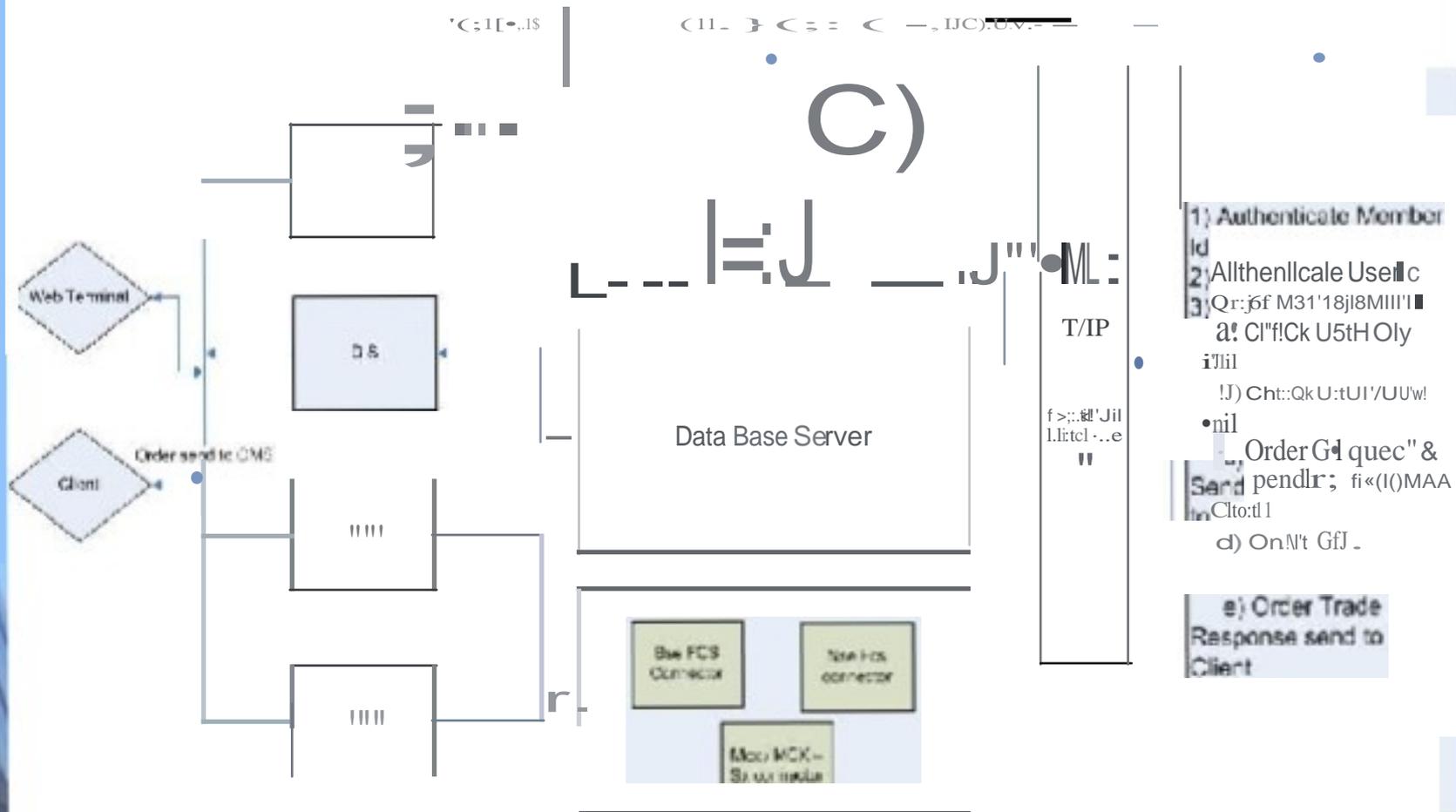
Back Office

- Stock Accounting
- Financial Accounting
- Compliance Monitoring
- Depository Management

Trading System



Trading & Order System Operations



Trading System

Screen Shot

Market By Order

The screenshot displays a trading application window titled "Market By Order". The main window shows a list of orders with columns for Order Code, Security/Contract, Security, BuyQty, BuyRate, SellRate, SellQty, Change, %Change, Volume, and TradedQty. A summary window titled "Market By Order (NEW) - ANNUAL HYPERMART BULLION (MFRS)" is overlaid on the main window, showing a table with columns for BuyQty, BuyRate, SellRate, and SellQty. The summary window also displays "Buy Order: 8550" and "Sell Order: 7525".

Order Code	Security/Contract	Security	BuyQty	BuyRate	SellRate	SellQty	Change	%Change	Volume	TradedQty
855	500388 DVDC	E	1	53,840.00	53,800.00	1	-22.00	-0.43	1,000	1
100	500326 BHPBPA	F	7	7,000.00	7,000.00	7	-10.00	-0.14	1,000	1
100	500310 SRI	A	50	2,480.00	2,480.00	45	-40.00	-1.61	30,000	8
855	500310 LIT	A	50	1,825.00	1,825.00	200	94.00	1.05	100,000	10
100	500304 WINDSOR	A	84	684.00	710.00	840	24.00	2.88	10,000	2
100	500301 COGNAC	A	4	600.00	1,000.00	480	37.00	5.67	7,000	5
855	500302 A38	A	22	882.00	885.00	25	3.00	0.34	8,000	80
100	500305 PPH	A	1	1,000.00	1,000.00	40	34.00	3.40	20,000	20
100	500307 DPOL	A	1	500.00	500.00	1	0.00	0.00	1,000	1
855	500303 JALAMUDAS	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500304 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500306 TEL	E	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500309 QIBAN	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500311 SAMBINA	F	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500308 WADLAND	E	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500309 JALASIL	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500301 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500308 A3744MY	A	100	8,700.00	8,700.00	100	0.00	0.00	100,000	100
100	500309 CASI401	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500301 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500306 TEL	E	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500304 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500305 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500310 A32	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500311 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500302 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
855	500309 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1
100	500301 WINDSOR	A	1	1,000.00	1,000.00	1	0.00	0.00	1,000	1

Buy Order: 8550 Sell Order: 7525

[[10:17] ESE] Total: 1320 Sold Order: 000048007505 5/3 526853 B1 855CM Fully Traded at 701.75 - remaining 0 for Account # 350.00

Status: User: FRISMI Current: Workspace: Default Version No: 1.0.0.1

3:31 PM 3/22/2011

Market watch screen

Calculus Trade Application

Calculus Market Order Message View Report Windows Help

BSE BSECM A 800131 0685GOI12 6.85% GOI 2012

Mini Indices View

Exgh	Index	Value	Change
BSE	SENSEX	18,096.74	-48.51
NSE	CNXXNIFTY	5,488.10	-17.25

Market Watch : BSE

Exchange	Segment	Code	Security/Commodity	ExpiryDate	BuyQty	BuyRate	SellRate	SenQty	LTP	Change	%Change	Volume	UpperCircuit	LowerCircuit	High
BSE	BSECM	500325	RIL		120	842.55	842.75	100	842.55	9.35	1.12	186,721	972.75	648.55	
BSE	BSECM	500002	ABB		45	871.50	873.40	1	873.45	8.10	0.94	24,776	745.55	497.05	
BSE	BSECM	500410	ACC		6	1,300.00	1,301.25	35	1,301.30	-24.00	-1.81	10,902	1,387.90	925.30	
BSE	BSECM	500300	GRASIM		1	2,732.00	2,739.00	1	2,732.05	-59.65	-2.14	2,241	2,799.10	1,866.10	
BSE	BSECM	500304	NIT		300	47.05	47.25	279	47.25	-0.45	-0.94	66,515	56.25	37.55	
BSE	BSECM	500470	TATASTL		10	463.80	464.00	30	464.00	-6.45	-1.37	469,690	480.00	320.05	
BSE	BSECM	500290	MRF		1	9,360.00	9,377.95	28	9,362.45	-44.30	-0.47	3,294	7,707.40	5,138.30	
BSE	BSECM	500010	HDFC		50	698.60	698.95	6	698.95	-2.65	-0.38	21,969	761.80	507.90	
BSE	BSECM	500180	HDFCBANK		5	532.30	532.80	20	532.35	0.60	0.11	35,059	550.60	367.10	
BSE	BSECM	500400	TATAPOWER		700	109.35	109.40	250	109.35	-1.75	-1.58	162,356	114.15	76.15	
BSE	BSECM	500366	ROLTA		99	90.55	90.70	50	90.90	-1.85	-1.99	65,043	75.10	50.10	

Market Watch : NSE

Segment	Security/Commodity	BuyQty	BuyRate	SellRate	SellQty	LTP
NSECM	TATAPOWER	110	109.10	109.20	420	109.10
NSECM	RELIANCE	48	843.85	843.95	353	843.85
NSECM	ABB	14	870.60	870.70	1	871.45

Market Watch : NSEFNO

Segment	Security/Commodity	BuyQty	BuyRate	SellRate	SellQty	LTP
NSEFNO	3IINFOTECH	56,000	17.95	18.00	8,000	18.00
NSEFNO	RELIANCE	750	843.65	843.95	250	843.70
NSEFNO	ABB	250	872.20	874.75	250	872.25
		250	1,300.70	1,301.70	250	1,301.25
		125	2,738.35	2,741.95	125	2,738.15

Buy Order [EQ]

Prev Close : 1,370.00 L Cir : 925.30 Up Cir : 1,387.90 LTP : 1,301.30 Volume : 10,902 Mkt Lot : 1

Type	Script Code	Script Name	Gr	Qty	Price	MPro%	InstID	Client	DisQty	Pro type	Tri Price	Odr Valid
BSECM	LIMIT	500410	ACC	A	1	1,301.25		CLIENT		Margin		EOS

Exchange	Segment	Code	Security/Commodity	ExpiryDate	BuyQty	BuyRate	SellRate	SenQty	LTP	Change	%Change	Volume	UpperCircuit	LowerCircuit	High
MCXSX	CDS	200344	EURINR	27-Feb-2012	2	65.3300	65.3400	32	65.3325	0.08	0.1303	6,519	9,999,999...	0.0000	
MCVSV	CDC	200345	CDPMB	27-Feb-2012	5	77.2650	77.2700	7	77.2700	-0.22	-0.2822	2,072	0.0000000	0.0000	

[05:30:00] [MCXSX]

Status : User : PRISM1 Current Workspace : Default | Version No. : 1.0.0.2

Dabba Trading

Dabba Trading =
High Return +
High Risk +
Greed –
Compliance

What is Dabba Trading & Its Mechanics

- Dabba = Box
- No Governance
- No banking channel / More Leverage
- Available for Equities and Commodities
- Runs parallel to Exchange Network

Risks and Rewards

- Benefits for traders/investors
- Benefits for dabba traders
- Disadvantages to traders /Investors
- Reason for the success of Dabba trading

Resource Requirements

- List of resource requirements:
 - Personnel
 - Technology
 - Finances
 - Distribution
 - Promotion
 - Products
 - Services

Resource management

- Looks for Small and youngster Investors
- Operates from less known places
- Uses latest Software and technology

Sample profit Calculations for Actual and Dabba Trade

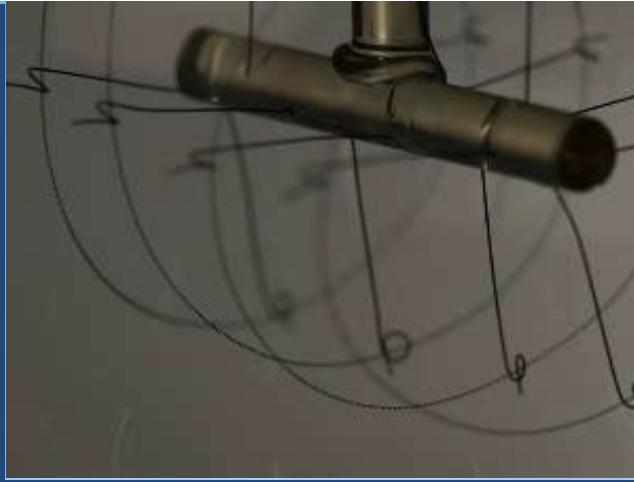
TRXN TYPE	CLIENT CODE	SCRIP CODE	SCRIP NAME	UNIT QTY	GROSS PRICE	GROSS AMT	BROKERAGE	SERV .TAX	STAMP DUTY	EXCHG CHRGS	SEBI FEES	SECUR TRANX TAX	CM CHRGS	NET AMT	SAVING %	IF DAILY TURN OVER 100 Crs.	LOSS TO GOVT IN LACS	
DELV	A001	500325	Reliance	100	880.00	88000.00	88.0000	10.8298	8.8000	2.7950	0.0880	88.0000		88108.1108				
DELV	A001	500325	Reliance	100	880.00	88000.00	88.0000	0.0000	0.0000	0.0000	0.0000	0.0000		88086.0000	22.1106	0.025678	0.02568	2.57
B	A001	500325	Reliance	100	880.00	88000.00	43.0000	5.3148	8.8000	2.7950	0.0880	0.0000		88059.7958				
S	A001	500325	Reliance	100	880.00	88000.00	1.0000	0.1238	8.8000	2.7950	0.0880	21.5000		88012.8048				
B	A001	500325	Reliance	100	880.00	88000.00	43.0000	0.0000	0.0000	0.0000	0.0000	0.0000		88043.0000				
S	A001	500325	Reliance	100	880.00	88000.00	1.0000	0.0000	0.0000	0.0000	0.0000	0.0000		88001.0000	28.4004	0.016505	0.0165	1.65
MCX	Comm						100 Per lot			1/10000(2.8/100000			10/10000(1.10/100000					
B	A001	SILVERIFUTCOMSILVERMIC31AUG2013		1	41081.00	41081.00	100.0000	12.3800	0.4100	1.1500		4.0000	0.4500	41194.9200				
R	A001	SII VFRIFUTCOMSII VFRMIC31AUG2013		1	41081.00	41081.00	100.0000	0.0000	0.0000	0.0000		0.0000	0.0000	41181.0000	13.9200	0.033791	0.03379	3.38
NCDEX	Comm																	
B	A001	FUTCOMMALZERABI2013-08-20		10	1404.92	14049.20	14.0492	1.7365	0.4100	1.1500		4.0000	0.4500	14066.5457				
S	A001	FUTCOMSYBEANIDR2013-10-18		10	3151.50	31515.00	31.5150	3.8953	0.4100	1.1500		4.0000	0.4500	31551.9703				
B	A001	FUTCOMMALZERABI2013-08-20		10	1404.92	14049.20	14.0492	0.0000	0.0000	0.0000		0.0000	0.0000	14063.2492				
S	A001	FUTCOMSYBEANIDR2013-10-18		10	3151.50	31515.00	31.5150	0.0000	0.0000	0.0000		0.0000	0.0000	31546.5150	8.7517	0.019185	0.01918	1.92

Modus Operandi

- Order Placement
- Order Confirmation
- Trade Settlement
- Funds Settlement
- Margin / Fund Loan
- Collections
- Commision sharing

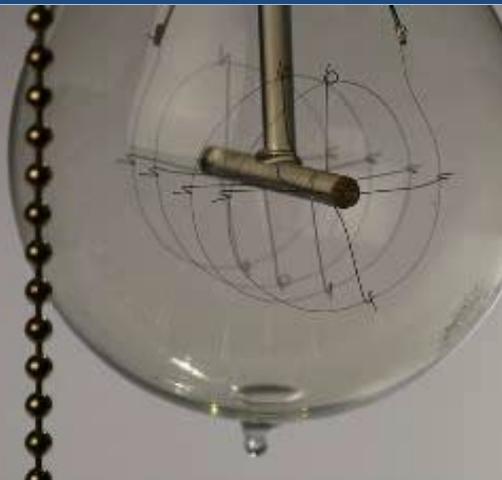
Typical Modus Operandi

- The client places order– trade executed - reported to the client.
- Immediately trades with opposite positions executed – clients open position exhausted.
- Client code for the reversed transactions changed. No suspicion if investor verifies the transaction from the exchange.
- Similar reverse mechanism when the client squares off his open position.
- Ultimate profit and loss shall be limited to client and broker only, as net position on both the dates of buying and selling is nil.
- In such cases broker will not issue the contract notes and will manually report the transactions. MTM bills on the plain paper without any stamp/letterhead.
- Entire process automated by latest software by fraudsters, thus can address large volumes with less man power and intervention. Many of the trades are spanned across exchanges, markets and countries as it involves balancing currencies like USD for bullion trades, one leg of the trade in local spot/futures/fx exchange where as the other leg in international spot/futures/fx exchanges.
- If the broker suffers heavy losses due to dabba trading, he is likely to dispute the transactions or abscond.



“We now know a thousand ways
not to build a light bulb”

Thomas Alva Edison



Credits

- Financial Action Task Force
- Financial Intelligence Unit
- BSE Limited
- National Stock Exchange
- Multi Commodities Exchange
- Reserve Bank of India
- Securities Exchange Board of India

People who **R**eign the Information technology and **S**oftware solutions **M**arket Multinationally



Jayesh Shah

Jayesh.shah@prism.in