

# PMLA Compliance – Securities Market.

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# Agenda

- Overview of Prevention of Money Laundering Act.
- Obligations of the Intermediary
- Key challenges in AML Implementation
- Case studies.

# Overview of FATF

- **Created in 1989**, An inter governmental policy making body, comprised of over 30 countries, that has a ministerial mandate to establish international standards for combating money laundering and terrorist financing.
- **Role**

Sets international standards to combat money laundering and terrorist financing.

Assesses and monitors compliance with the FATF standards
- **Issues recommendations**
- **India is a member of FATF.**

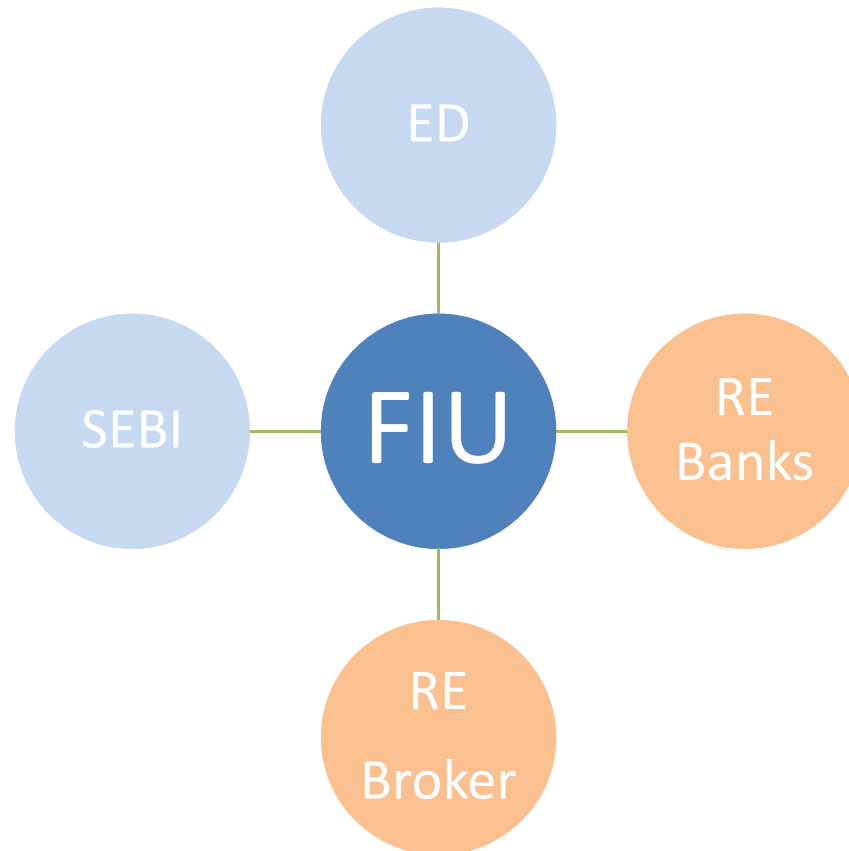
# Prevention of Money Laundering Act

- An Act to prevent money-laundering and to **provide for confiscation of property** derived from, or involved in , money laundering and for matters connected therewith or incidental thereto.
- **Offence** of Money Laundering: Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or actually involved in any process or activity connected with the [**proceeds of crime** including its concealment , possession, acquisition or use and projecting or claiming] it as untainted property shall be guilty of offence of money laundering.
- Financing of Terrorism.

# Reporting Entities – Securities Market

- Share Brokers
- Derivative Members
- Depository Participant
- Commodity Broker
- Portfolio Managers
- Investment Advisor
- Sub Broker
- Recognized Stock Exchange
- Commodity Exchange
- Depositories
- Mutual Fund Companies
- Registrar & Transfer Agents
- Share Transfer Agents
- Merchant Bankers
- Other Intermediaries
- Custodian of Securities
- Foreign Institutional Investors
- Registrar to an issue

# FIU India



- Collection of Information
- Analysis of Information
- Sharing of Information
- Act as Central Repository
- Coordination
- Research and Analysis

The main function of FIU-IND is to receive cash/suspicious transaction reports, analyze them and, as appropriate, disseminate valuable financial information to intelligence/enforcement agencies and regulatory authorities

# Offence

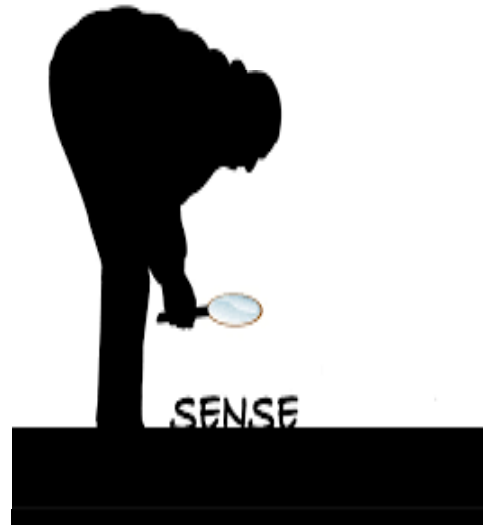
- Part A lists offences from 28 Acts, the one directly related to securities market is,
- Under the SECURITIES & EXCHANGE BOARD OF INDIA ACT,1992.
- 12A read with Section 24 - Prohibition of Manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.



# Reporting Entity



Monitoring



Analyzing

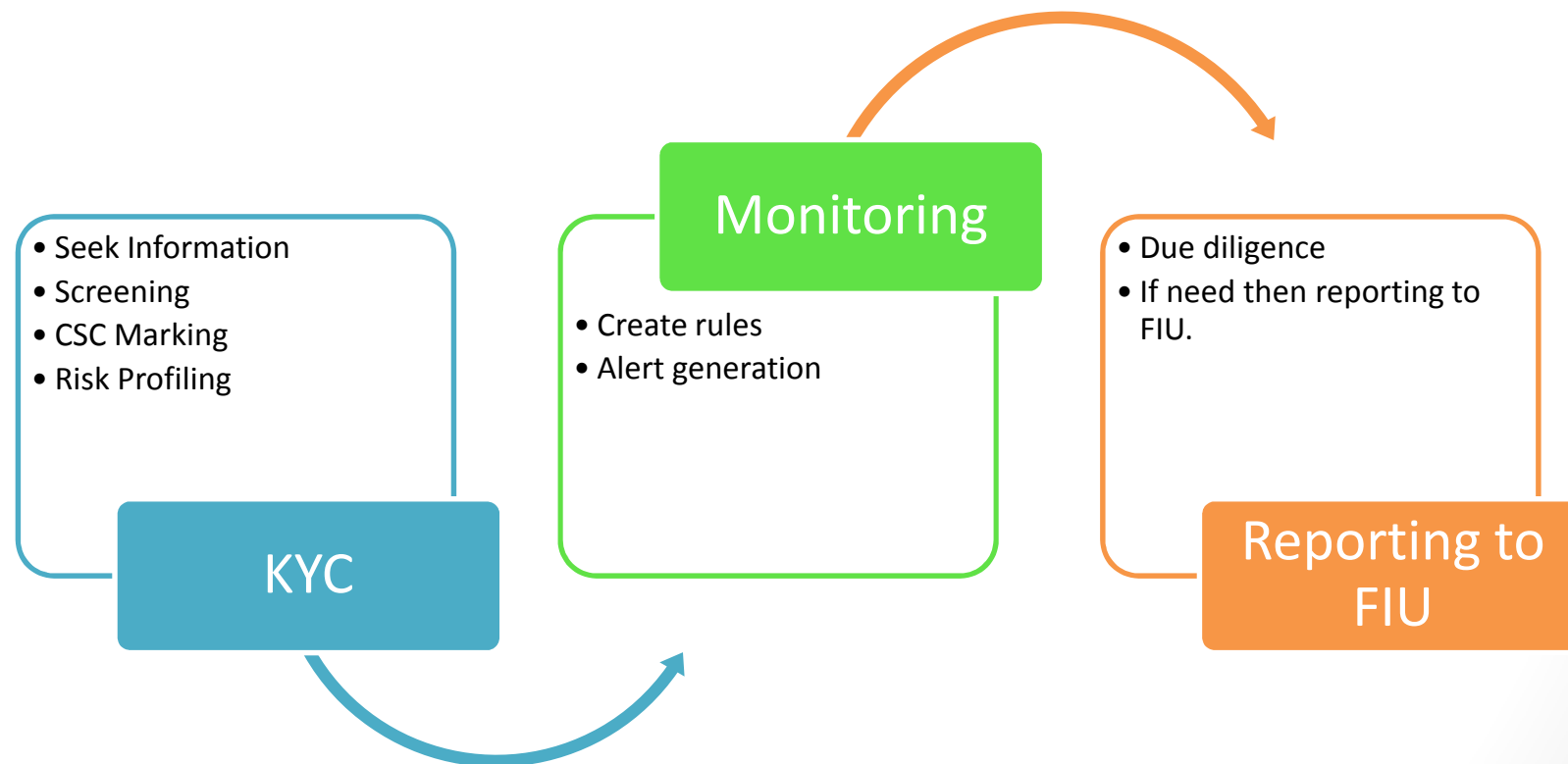


Send  
Information to

# Important Obligations

- **Initial / Basic**
  - Appointment of Principal Officer
  - Appointment of designated director
  - Having a Policy
    - a) Customer Acceptance & Risk Profiling
    - b) Alert generation parameters s
    - c) CSC Identification
    - d) Monitoring of Transactions
    - e) Reporting
- **Continuous**
  - Risk Assessment of the Organization.
  - Review of Policy
  - Monitoring & Reporting
  - Record Keeping

# Reporting Entity - Activity zone



# KYC – Compliance

- In Person Verification
- Verification of Identification Documents
- Screening against the sanctions list a) UNSC 1267 b) UNSC 1988 c) UAPA List d) Yemen List
- Seek and capture Financial Details.
- Capture Ultimate Beneficial Owners
- Special Category Marking
- Risk Profiling – Low / Medium / High
- Additional Due diligence for Medium and High Risk Clients

AML Watch List

Search Options

Name  Source

[System Settings](#) PAN

[Bulk Name / PAN Verification](#)

Pan Match

(0) Layout

Displaying 0 record

Name	Source	Order Date	Order	PAN	Address	Other Info	Period	Circular No	Circular Date	Notes	List Type	Title
Displaying 0 record												

Name / ID Match

Displaying 0 record

Name	Source	Match Type	Match Name	Order Date	Order	PAN	Other Info	Period	Circular No	Circular Date	Address	No
Displaying 0 record												

Order Details

# Customer Information - UBO

Client

Database: Trading Name: RSVP Commodities Private Limited \* Default Demat Acc: 120548000011371 - ABC DP SERVICES Pv

Client Id: 11203R1 \* DpId: PAN: AABCR4744A Intermediary: Name: Location: Name:

General Details Demat A/c Income Risk Key Persons Identifications Bank A/c Segments Pms Fees Pms Bank/Demat BSE MF Details Brokerage RM

Displaying 7 records

	First Name	Middle Name	Last Name	Associated With	Designation	Share Holding Percent	Email	Mobile	PAN	Address Line
> 1	Ajay		Jain	RSVP Commodities Private Limited	Director	5.00				
2	Pujit		Jain	RSVP Commodities Private Limited	Director	5.00				
3	Sanjana		Jain	RSVP Commodities Private Limited	Director	5.00				
4	Akshata		Jain	RSVP Commodities Private Limited	Share Holder	25.00	akshata@rsvpgroup.com			
5				Vedant Commodities P Ltd	Share Holder	60.00				
6	Omprakash		Sharma	Vedant Commodities P Ltd	Share Holder	75.00				
7	Pooja		Sharma	Vedant Commodities P Ltd	Share Holder	25.00				

Key Persons for Client

Modify Delete

Associated with: Full Name Share Holding % Nationality

First Name Number of Shares Occupation

Middle Name Address line 1 Gender

Entity Name/Last Name \* Address Line 2 Aadhar

Designation \* Address Line 3 DOB

Email City DIN

Mobile State

Telephone 1 Country

PAN Pin

Select Client to copy Client details into Key Person

[Select UCC Client](#)

Submit Reset



# Transaction Monitoring / Alerts

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## Alert Source

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Software

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External (BSE/NSE/CDSL/NSDL)

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Employees

---

Franchisee

---

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## Type

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Financial Size

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Unusual Gains / Loss

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Surveillance

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Insider Trading

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Miscellaneous

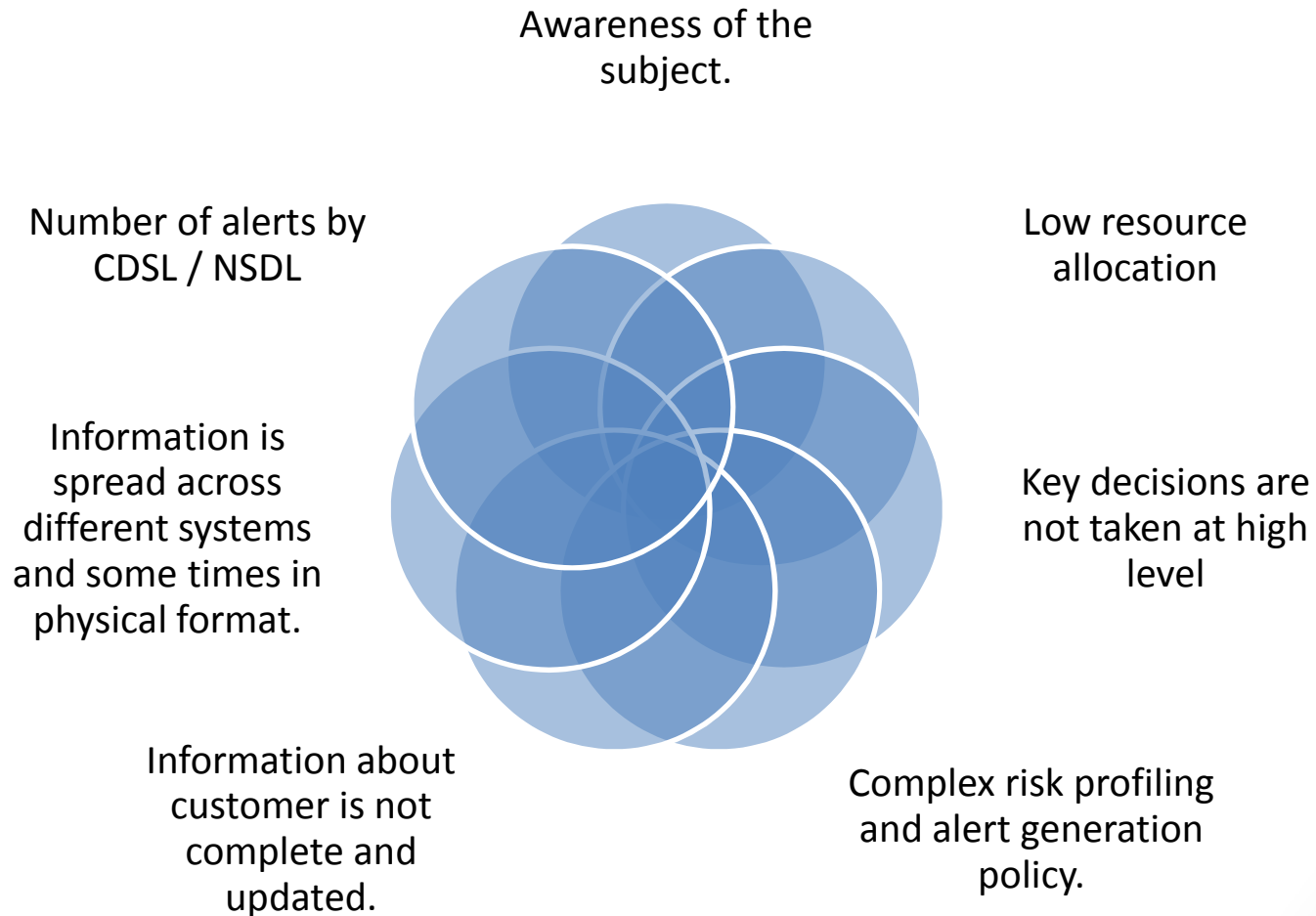
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# Analysis & Reporting

- Analyze the alert.
- Seek additional information from the client without tipping off.
- Maintain record of analysis and supporting documents.
- If decision is taken to file STR.
  
- Within 7 days of determination file STR. No tipping off.
- Can be digitally signed.
- No tipping of the customer.
- Continue business as usual unless it is related to be of nature of a) Market Manipulation b) Terrorism financing.



# Key problems in AML Implementation



# Sample Study 1

- Client: Jayesh Shah HUF      Age 2      Occupation: NA
- Income: 5- 10 lacs.
- Alert: Sold a stock worth 3 crores in one week.
- Analysis Done: Single stock came through preferential allotment. Nothing else in the account. B Group Stock.

Client says made an investment.

Stock is up 7 times in last one year.

The Karta of the account is one of the most well known surgeons in the country.

STR ??

# Sample Study 2

- Client: Asha Patel    Age 32    Occupation: Housewife
- Income: 5- 10 lacs.
- Alert: Investment of 75 lacs in two days.
- Analysis Done: Is from a family which is having one of the largest business house in a tier 2 city.  
Investment is done in 5 blue chip stocks.

Branch manager from where client is sourced says no need to worry, client has a very good financial standing. No need to ask net worth. She is also a promoter in a listed company. The investment done is not in the own company.

STR ??

## Sample Study 3

- Client: Ajay Pai      Age 24      Occupation: Service
- Income: 1- 5 lacs.
- Alert: last month turnover was 12 lacs, current month 8 crores.
- Analysis Done: Turnover is done in derivatives. Shares have come as margin worth 2 crores, all blue chip stocks from 3 different accounts named. Gautam yadav, Shilpa yadav and Pragnesh Yadav.

On Inquiry client says that the shares were taken as loan and will be returned. He sounds worried and says that he will reverse the transaction immediately.

STR ??

## Sample Study 4

- Client: Veena Reddy Age 29      Occupation: Professional/Doctor
- Income: 5- 10 lacs.      Account opened: 2 months back
  
- Alert: 2 lac shares dematerialized worth 1.88 crores.
  
- Analysis Done: Jumbo certificate was dematerialized. There was only one more stock in the account which was worth 95,000.  
The scrip holding was around 0.6 % of the issued capital.  
Stock has moved up 500% in last one year.

On Inquiry client says that the shares were taken through a physical mode and if any other details are required then you can call the CA.

STR ??

## Sample Study 5

- Client: Shreyans P Ltd Age 2      Nature of Business: Investment
  - Income: Loss.      Account opened: 2 months back
  - Paid up: 20 lacs      Net Worth: 17 lacs.
- 
- Alert: 45 lacs worth of shares have been received off market. Qty is 5000 shares. Subsequently all these are transferred to 50 accounts by off market.
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- Analysis Done: Corporate announcement in the stock says that there is a buy back in the stock. The account holder says that they have purchased shares off market and sold off market with a consideration.

STR ??

## Sample Study 6

- Client: Jaya Garg                      Age 92                      Occupation: Not available
- Income: 1-5lacs.    Account opened: 8 Years back
  
- Alert: Holding 4% of a listed stock in the demat account. Value worth 15 crores.
  
- On analysis of client account it was seen that
  - a) Client had a single stock in the demat account
  - b) Two more clients sourced from the same branch had the same stock and were also holding 1.5 % and 2% of the listed company.
  - c) All 3 accounts were opened in the same month.
  - d) Shares came into these accounts in a gap of about 15 days.
  - e) Contact could not be made on all 3 mobiles.

STR ??

## Sample Study 7

- Client: Akshay Mathur    Age 31    Occupation: Service
- Income: 10-25 lacs.                      Account opened: 1 year back
  
- Alert: Sold one stock worth 4 crores and did 35% of exchange turnover in the stock.
  
- Analysis Done: Akshay was buying this stock for 9 months now and there was results declared and on a super profit yesterday stock rose 18% and Akshay sold off the stock and made a profit of 1.5 crores.

Akshay is working as a Operations Head with another brokerage house and has good financial standing. He never dealt in any other stock.

STR ??



## Sample Study 8

- Client: Prathamesh Sawant    Age 42    Occupation: Service
- Income: 5-10 lacs.    Account opened: 1 year back
- Alert: 6% of the exchange turnover done by the client.
- Analysis Done: Prathamesh was doing trades from online account and was doing almost 4 – 6 % daily. He would do only intraday on a daily basis and make almost no profit loss. Shares were bought @ 125.35 and sold 125.30 and so on. The only unusual part was that quantity like 4000 or 5000 was getting executed in 3 or 4 trades only consistently.

On interaction prathamesh says that he is technical trader. He likes only this one stock because he is following it for a long time.

STR ??

- References: Bare Act , PMLA Master Circular dated 31<sup>st</sup> Dec 2010.

Thank you