

# Prevention of Money Laundering

## *Key Requirements For Securities Market Intermediaries*

# Regulatory Requirements for AML Requirements

- SEBI Circulars on KYC and payment mechanism prior to 2005
- SEBI Circulars pursuant to AML Legislation (January and March 2006)
- SEBI Master Circular dated December 19, 2008
- Directives and circulars issued by Exchanges to members

# Key Requirements under AML Guidelines

- Designation of Principal Officer
- Client Due Diligence (CDD)
- Record Keeping procedures
- Monitoring and Reporting of transactions
- Continuous review of internal procedures and ongoing training

# Principal Officer

Appointment of Principal Officer  
compulsory for all intermediaries

-Focal point for all aspects of AML systems  
and procedures

*Clause 12.1 of SEBI Master Circular no ISD/AML/CIR-1/2008 dated December 19, 2008*

# CDD Procedures

- Whether KYC procedures are being followed
- Risk profiling of clients
- Frequency of updation of information

# Record Keeping procedures

- To ensure audit trail and reconstruction of transactions
- Record retention period specified under PML Rules and SEBI Circulars (10 years from date of cessation of transactions)
- Ability to ensure timely submission to authorities

*Ref clause 6,7 &8 of SEBI Circular no ISD/CIR/RR/AML/1/06 dated January 18, 2006*

# Monitoring and Reporting of transactions

## ➤ Suspicious Transactions:

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- Appears to be made in circumstances of unusual or unjustified complexity; or
- Appears to have no economic rationale or bonafide purpose; or
- Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

*Rule 2 of PMLA Rules notified on July 01, 2005 & amended on May 24, 07*

# Why STR is important

- To comply with legislative obligation
- For Risk assessment and monitoring
- To prevent misuse of your system by money launderers and fraudsters
- To avoid reputation risk
- To comply with recommendations of international bodies (FATF, APG, EGMONT etc.)

# Parameters for generation of possible STRs:

## Account Opening Process

- Identity of Clients

## Client Account Activity

- Multiple Accounts
- Activity in Account & Nature of Transactions
- Value of Transactions

*Circular ISD/AML/CIR-1/2008 dated December 19, 2008*

# Suspicious Transactions/Attempted Transactions - Possible 'Red Flags'

## Identity of clients:

- Submission of false, misleading or substantially incorrect information
- Unusual concern for secrecy regarding type of business, identity, reporting standards
- Lack of knowledge about his profession or business
- Questionable background/subject of news reports indicating possible criminal, civil or regulatory violations

# Suspicious Transactions - Possible 'Red Flags'

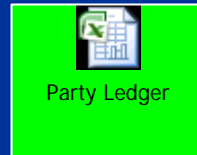
## Multiple Accounts:

- Large number of accounts having a common account holder, addresses, introducer without any rationale
- Unexplained transfers among multiple accounts with no rationale
- Excessive journal entries between unrelated accounts without any apparent business purpose

# Suspicious Transactions - Possible 'Red Flags'

## Activity in Accounts

- Unusual activity compared to past transactions
- Entries just below the threshold limits for reporting

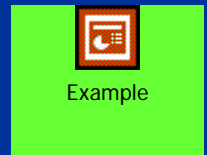


- Use of different accounts by client alternatively
- Inconsistent with client's business pattern
- Upon request, client refuses to disclose source of funds.

# Suspicious Transactions - Possible 'Red Flags'

## Nature of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Investment proceeds transferred/requested to a third party
- Transactions reflect wash sales/likely manipulation

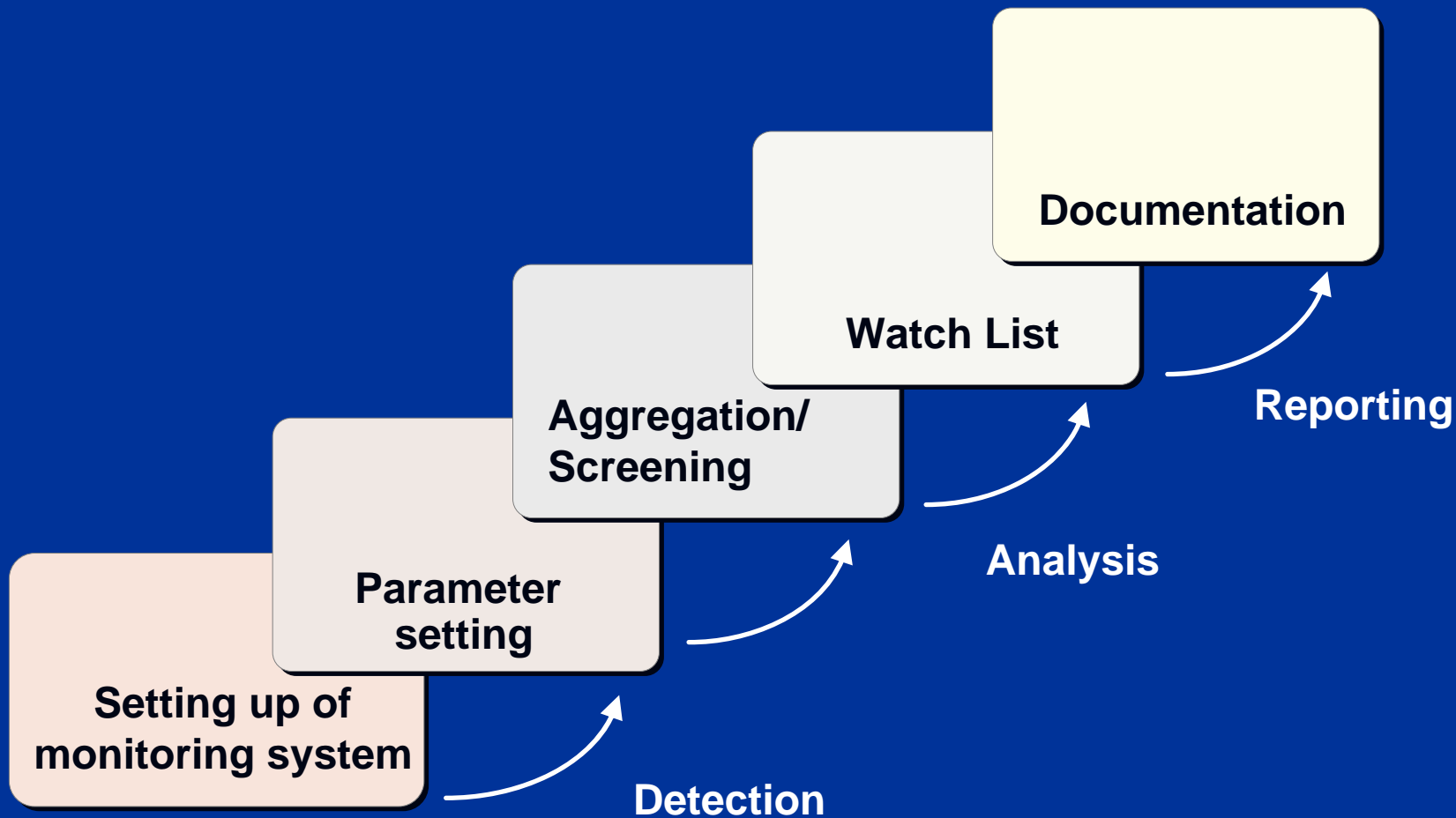


# Suspicious Transactions - Possible 'Red Flags'

## Value of Transactions

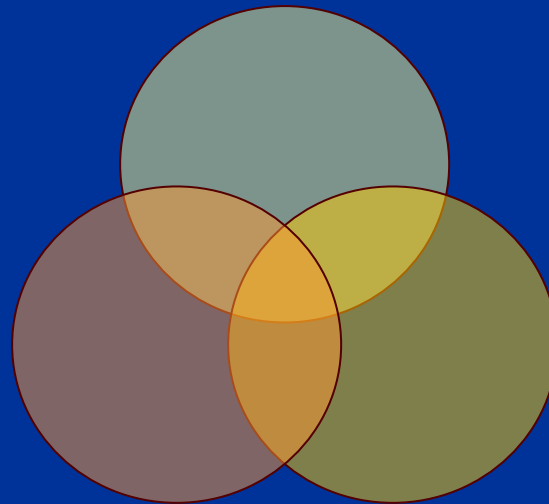
- Large Funds-In and Funds-out (high level of account activity with very low levels of securities transactions)
- Inconsistent with the clients apparent financial standing
- Sudden spurt in value

# Process Flow for identification, Analysis and Reporting of Suspicious Transactions



# AML Policies and Procedures

**AML Manual**



**Compliance  
Bulletins**

**Training  
Material**

## Points to consider....

- Commitment of senior management towards AML and CFT compliance
- Do you have written AML policy and manual?
- Is your principal officer equipped enough to enforce AML program and policies?
- Do you have a system for determining what is suspicious activity?

## Points to ponder.... Contd.

- What steps do you take once suspicious activity is identified?
- Are your staff members trained & sensitive to risk?

THANK YOU