

KNOW YOUR CUSTOMER, ANTI MONEY LAUNDERING & SURVEILLANCE POLICY

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Related Regulations	<ul style="list-style-type: none"> • Securities and Exchange Board of India (SEBI) Master Circular – Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under. <ol style="list-style-type: none"> a) Amendment - SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/078 dated June 06, 2024. b) Amendment – SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/170 dated October 13, 2023. c) Amendment – SEBI/HO/MIRSD/SECFAFT/P/CIR/2023/091 dated June 16, 2023. d) Amendment – SEBI/MIRSD/SEC-5/CIR/P/022 dated February 03, 2023. e) Amendment – SEBI/MIRSD/DOP/CIR/P/113 dated October 15, 2019. f) Amendment – SEBI/MIRSD/DOS3/CIR/P/104 dated July 04, 2018. g) Amendment – SEBI/ISD/AML/CIR/1 dated February 12, 2010. h) Master Circular – SEBI/ISD/AML/CIR/1 dated December 19, 2008. • Master Circular – Know Your Client norms for the securities market. Ref. No. SEBI/HO/MIRSD/SECFAFT/P/CIR/2023/169 dated October 12, 2023. <ol style="list-style-type: none"> a) Clarification on Know your Client (KYC) Process and Use of Technology for KYC dated April 24, 2020. (Ref. No.: SEBI/HO/MIRSD/DOP/CIR/P/2020/73) b) Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations, 2011 dated June 24, 2022. (Ref. No.: SEBI/HO/MIRSD/DoP/P/CIR/2022/89) c) Guidelines in pursuance of amendment to SEBI KYC (Know Your Client) Registration Agency (KRA) Regulations, 2011 dated July 27, 2022 (Ref. No.: SEBI/HO/MIRSD/SEC/5/P/CIR/2022/100). d) FAQs – KYC Norms for the Securities Market. • Weapons of Mass Destruction - SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/062 dated April 26, 2023 • Unlawful Activities Prevention Act (UAPA), 1967 • Prevention of Money Laundering Act, 2002 (PMLA) • Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules)



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Summary of the changes for Review:

- 1) To Amend policy in line with the amendments of SEBI Master Circulars.
- 2) Minor Changes in Introduction.
- 3) Removing the point related to the Governance Structure.
- 4) Minor changes in KYC/AML Principles of 5paisa.
- 5) Inclusion of sub point Why “Know your Customer” under What is Money Laundering.
- 6) Minor changes in Customer Acceptance Policy.
- 7) Change in percent for controlling ownership interest of beneficial owner under Client Due Diligence (CDD) [Refer 5.1, a) to e)]
- 8) Inclusion of Applicability of Foreign Investors along with 6 attributes of KYC under Client Due Diligence [Refer 5.1, g)]
- 9) Process wherein the name of the client (new or existing) matches with the negative list.
- 10) Inclusion of Monitoring of Transactions.
- 11) Changes in Maintenance of Records of Transactions / Information to be Preserved / Maintenance and Preservation of Records / Cash and Suspicious Transactions Reporting to Financial Intelligence Unit-India (FIU-IND).
- 12) Modification in Annexure 1.
- 13) Modification in Annexure 2.
- 14) Modification in Annexure 3.

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KYC, AML & Surveillance Policy**1. INTRODUCTION:**

Securities and Exchange Board of India (SEBI) has issued necessary directives vide Regulations, Rules and various circulars from time to time, covering issues related to Know Your Customer (KYC) norms and Anti-Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). The KYC, AML & Surveillance Policy (The Policy) has been prepared in accordance with the provisions of the Prevention of Money Laundering Act, 2002 (PMLA Act) and the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules) as amended from time to time and notified by the Government of India and also takes into account the other Rules and Regulations laid down by SEBI and FIU.

As per PMLA, every banking company, financial institution (which includes a chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock broker, an authorised persons, 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) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address the concerns of money laundering and suspicious transactions undertaken by clients.

For the purpose of PMLA, transactions include:

- a. All cash transactions of the value of more than Rs. 10 lakhs or its equivalent in foreign currency.
- b. All series of cash transactions integrally connected to each other which have been individually valued below Rs. 10 lakhs or its equivalent in foreign currency, where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of Rs. 10 lakhs or its equivalent in foreign currency.
- c. All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non-monetary account such as Demat account, Security account maintained by the registered intermediary.
- d. For the purpose of suspicious transactions reporting, apart from transactions integrally connected, transactions remotely connected or related are also to be considered.

In case there is a variance in Client Due Diligence (CDD) / Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches / overseas subsidiaries in which 5paisa Capital Limited (hereinafter referred to as 5paisa) operates and are required to adopt the more stringent requirements of the two.

If the host country does not permit the proper implementation of AML/CFT measures consistent with the home country requirements, financial groups shall be required to apply appropriate additional measures to manage the ML/TF risks and inform SEBI.

“Suspicious transactions” means a transaction whether or not made in cash which to a person acting in good faith –

- a. gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime regardless of the value involved; or

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- b. appears to be unusually large and / or made in circumstances of unusual or unjustified complexity or
- c. appears to have no economic rationale or bonafide purpose.

This Policy only supplements the existing SEBI / FIU guidelines relating to KYC / AML and any subsequent guidelines from the date of the policy on KYC / AML will be implemented immediately, with subsequent validation by the Board. Extant regulations will at any point in time supersede this Policy.

2. KYC / AML PRINCIPLES OF 5paisa:

The policy aims to develop a diligent and compliance sensitive culture through a focused approach for customer acceptance and identification procedures for risk categorization and identification of suspicious transactions.

- 2.1 The KYC / AML principles of 5paisa is to prevent 5paisa from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The objective of this policy is also to enable 5paisa to know / understand its customers and their financial dealings better which in turn will help 5paisa to manage its risks prudently.
- 2.2 It is important that 5paisa's management views "Money Laundering prevention" and "Knowing Your Customer" as part of the risk management strategies and not simply as standalone requirements that are being imposed by legislation / regulators.

Hence the objective of the policy is to –

- a. To have a proper Customer Due Diligence (CDD) process before registering clients.
- b. To monitor / maintain records of all cash transactions of the value of more than Rs. 10 lakhs.
- c. To maintain records of all series of integrally connected cash transactions within one month.
- d. To monitor and report suspicious transactions.
- e. To discourage and identify money laundering or terrorist financing activities.
- f. To take adequate and appropriate measures to follow the spirit of the PMLA.

3. WHAT IS MONEY LAUNDERING?

Money Laundering is the criminal practice of putting ill-gotten gains or dirty money through a series of transactions, so that the funds are cleaned to look like proceeds from legal activities. It is driven by criminal activities and conceals the true source, ownership, or use of funds.

In simple terms money laundering is most often described as the "turning of dirty or black money into clean or white money". If undertaken successfully, money laundering allows criminals to legitimize "dirty" money by mingling it with "clean" money, ultimately providing a legitimate cover for the source of their income.

Section 3 of the PMLA Act defines money laundering in following words:

"Whoever 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 offence of money-laundering".

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3.1 Why “Know Your Customer”?

- 3.1.1. One of the best methods of preventing and deterring money laundering is a sound knowledge of a customer’s business and pattern of financial transactions. The adoption of procedures by which financial institutions “know their customer” is not only a principle of good business but is also an essential tool to avoid involvement in money laundering.
- 3.1.2. 5paisa shall adopt appropriate KYC procedures and internal controls measures to:
- a) Determine and document the true identity of the customers who establish relationships, open accounts or conduct significant business transactions and obtain basic background information on customers;
 - b) Assess the money laundering risk posed by customer’s expected use of 5paisa’s products and services;
 - c) Protect 5paisa from the risks of doing business with any individual or entity whose identity cannot be determined or who refuses to provide information, or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.

4. CUSTOMER ACCEPTANCE POLICY:

- 4.1 No account shall be opened in anonymous or fictions / benami name(s). PAN shall be mandatory for each account. Each client shall have only one trading account.
- 4.2 The parameters of risk perception in terms of the nature of business activity, location of customer (registered office address, correspondence addresses and other addresses if applicable), mode of payments, volume / trading turnover, social and financial status, and manner of making payment for transactions undertaken, etc. The parameters shall enable categorization of customers into low, medium and high risk. 5paisa has indicative categories of customers which would fall into low, medium and high risk categories (**refer Annexure 1**). The list shall be updated with approvals from Compliance, and Business groups.

For the purpose of risk categorization, individuals / entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk. Illustrative examples of low risk customers are as follows:

- Salaried employees whose salary structures are well defined.
- Government Departments and Government owned companies.
- Regulators and Statutory Bodies, etc.

Customers that are likely to pose a higher-than-average risk to 5paisa shall be categorized as medium or high risk depending on customer’s background, nature and location of activity, country of origin, sources of funds and his client profile etc. Clients of Special Category (CSC) as defined as per PMLA circular dated July 04, 2018, will be classified as “High Risk”. Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile.

KYC, AML & Surveillance Policy**5. CUSTOMER DUE DILIGENCE (CDD):**

5paisa shall apply Customer Due Diligence (CDD) measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear.

5.1 While the profile of the customer is captured in the account opening form, a Customer Due Diligence (CDD) sheet is also prepared at the account opening stage for all accounts (Individual / Non Individual). The CDD sheet is an addendum to the account opening form and captures in further detail the profile of the customer, especially the expected transaction pattern of the account. The CDD sheet is prepared by the sales team based on their discussions and understanding of the customer but is not required to be signed off by the customer.

CDD shall include the following measures –

- Before registering client, obtain Antecedent information. Verify independently information submitted by client but not limited to his identity, registered office address, correspondence address, contact details, occupation, Promoters / Directors, source of income, experience in securities market, PAN no., SEBI Registration Number, (if any), etc. by verification or original documents or such related processes.
- For Companies and LLPs, validations may be done from MCA (ROC site) to check the veracity of existence of the company / LLP, registered office address, CIN, Directors / Registered Partners list, etc. as an additional check. In case of any mismatches, appropriate clarifications be sought from the prospect and still if the responses are not cogent enough, such accounts will not be opened.
- In case enhanced CDD is required, generally Retail client have a relationship at the local level with the branch, and in such cases we shall check the local references for client identity and other credit details including those mentioned above or we can refer any other reliable, independent source documents, data or information. Also, where the client purports to act on behalf of juridical person or individual or trust, 5paisa shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person. This should be approved by Account Opening Team shall open the Client Account after verifying information collected, registration form along with other supporting documents. All new accounts shall be reviewed against negative lists issued by SEBI, Exchanges, ANMI and other International watchlists such as OFAC, UN sanctions lists, EU, French, Interpol, etc.
- In person verification is to be carried out as per the requirements of the regulators. Further check would be done for actual beneficial ownership and control of the particular account.
- Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and / or the person on whose behalf a transaction is being conducted. We need to obtain the details with respect to shareholders, promoters from the non-individual clients and wherever possible it must be verified independently. Also verify the sources of funds for funding the transaction. We shall also take care at the time of settlement regarding nature of transaction, movement / source of transaction, etc. Periodically to ask for client's financial details to determine the genuineness of transaction. Special care would be taken in case of non-individual accounts such as corporate, partnership firms etc. where the ownership structure is opaque. In all such cases the accounts would be activated only post approval from the compliance department.

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- For this purpose, “beneficial owner” is the natural person or persons who ultimately own, control or influence a client and / or persons on whose behalf a transaction being conducted, including those persons who exercise ultimate effective control over a legal person or arrangement. 5paisa shall be guided by and follow SEBI circular CIR/MIRSD/11/2012 dated September 05, 2012, in this regard and such amendments thereto from time to time. Identifying beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and / or the person on whose behalf a transaction is being conducted. The beneficial owner shall be determined as under:
 - a) **Where the Client is a Company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation: For the purpose of this sub-clause: -

 - i. “Controlling ownership interest” means ownership of or entitlement to more than 10% of shares or capital or profits of the company;
 - ii. “Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders’ agreements or voting agreements;
 - b) **Where the Client is a Partnership Firm**, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of / entitlement to more than 10% of capital or profits of the partnership or who exercises control through other means.

Explanation: For the purpose of this clause: -

“Control” shall include the right to control the management or policy decision;
 - c) **Where the Client is an Unincorporated Association or Body of Individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals;
 - d) Where no natural person(s) is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;
 - e) **Where the Client is a Trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 10% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and
 - f) Where the client or the owner of the controlling interest is an entity listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.
 - g) **Applicability for Foreign Investors:** In this regard 5paisa may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

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- As a part of Client Due Diligence (CDD), in April, 2021, the Exchanges and Depositories have made below mentioned 6 attributes of KYC mandatory.
 - a) Name
 - b) Address
 - c) PAN
 - d) Valid Mobile Number
 - e) Valid Email Address
 - f) Income Range

- **Reliance on third party for carrying out Client Due Diligence (CDD):**

In-person verification and verification of document copies of clients / prospective clients against originals are to be done and reliance on third parties / external entities, where necessary, in accordance with SEBI / Exchange / Regulatory guidelines in this regard as may be amended from time to time. *{At this point in time, in case of stock brokers and their Authorized Persons i.e. APs (appointed by the stock brokers after getting approval from concerned stock exchanges) can perform In-Person Verification – as per SEBI Circular dated December 23, 2011} or one can rely on IPV / KYC as “verified” and available in KRAs / CKYC / Digilocker.* No other third party may be relied on, unless expressly authorized under SEBI / Exchange / Regulatory guidelines in this regard.

- For onboarding of NRI / FII / FPI clients, in case there is any connection with any country which has been observed by the FATF to be non-compliant with its requirements, the account shall be rejected, which shall mean the following –
 - Person has provided a residential / correspondence address of such country
 - Directions for the operating of the account are received from the said country
 - The POA holder of the account is connected in the above manner from that country.

- **Ongoing Due Diligence and Scrutiny:** We shall conduct periodic due diligence and scrutiny of client’s transaction and accounts to ensure that transactions are being conducted in knowledge, to find out the risk profile, source of funds, etc. At regular interval, ongoing due diligence and scrutiny needs to be conducted 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 Organization’s knowledge of the client, its business and risk profile, taking into account, where necessary, the customer’s source of needs.

- For all clients applying for trading rights in the futures and options / currency / commodity segments, further details as regards their proof of income and source of funds and shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

- Necessary checks shall be conducted before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations or banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide. For conducting such reviews, while 5paisa shall check the lists provided by SEBI / Exchanges / internally

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maintained negative lists, it shall rely primarily on the United Nations updated list of individuals and entities which are subject to various sanction measures as approved by Security Council Committee established pursuant to UNSC 1267 can be accessed from the United Nations website at <https://www.un.org/securitycouncil/content/un-sc-consolidated-list> and <https://www.un.org/securitycouncil/sanctions/1718/materials> and <https://press.un.org/en/2024/sc15664.doc.htm>. The list of FATF countries is also updated on an ongoing basis to ensure that clients covered under the high risk countries as per the FATF list are not allowed to open accounts through 5paisa. The compliance team shall be responsible to ensure that the said lists are updated through various sources.

- Process wherein the name of the client (new or existing) matches with the negative list –

Type of Client	What matches with negative list?	What is to be done?
New	PAN	Reject Account
	Name	<ol style="list-style-type: none"> 1. Check the address or any other detail in the negative list. 2. If anything is closely resembling the client in question – Escalate case to Compliance team before opening. 3. Compliance team to analyse the alert with the KYC details of the client. 4. Take a declaration from the client that he is not the same person. 5. If the client is not cooperating – Not to open the account. 6. If the client provides the documents, on board the client.
Existing	PAN	<ol style="list-style-type: none"> 1. Analyse the reason for alert generation. 2. Seek proof of payment of penalty to SEBI from the client in case alert generated is for only paying penalty against SEBI order; or 3. Proceed for locking / suspension of account as per SEBI / regulatory orders where client is debarred from accessing the securities market or cases related to fraud, financial crime, moral turpitude, etc.
	Name / Address / Other details	<ol style="list-style-type: none"> 1. Escalate to Compliance Officer. 2. Review past transactions. 3. If the past transactions have shown any similarity to SEBI order or any alert – Close the account. 4. If not – ask the client to provide declaration, he is not the same person. 5. If the client is not cooperating – Lock the client’s account. 6. If the client provides the documents, continue maintaining the client’s account.

5.2 5paisa shall not open an account or shall close an existing account where 5paisa is unable to apply appropriate CDD measures / KYC policies. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided is suspected to be non-genuine, or there is perceived non-cooperation of the client in providing full and complete information. It shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. Wherever possible, 5paisa shall take necessary measures to ensure that it withholds securities or money that may be from suspicious trades and shall consult the relevant authorities in determining next steps when suspicious and reportable transactions are observed.

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In case of account of Partnership firms / LLPs, account opening team shall check the Partnership Deed of the Entity / LLPs and the list of partners of the firm / LLP to ensure no HUF is a partner in the firm / LLP. In case an HUF is a partner of the firm / LLP, the account shall not be opened. (Ref. MCA Circular dated 29.07.2013).

Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the Principal Officer for necessary action, including filing of STR, where deemed so necessary by Principal Officer.

- 5.3 5paisa shall apply higher levels of due diligence when an account is operated by a mandate holder or where an account is opened by an intermediary in fiduciary capacity. KYC documents will be taken for both the mandate holder / intermediary in fiduciary capacity and the account holder. Adequate verification of a person's authority to act on behalf of the client shall be carried out.

6 CUSTOMER IDENTIFICATION PROCEDURE:

- 6.1 Customer identification procedure means verifying the identity of the customer by using reliable, independent source documents, data or information. Also, where the client purports to act on behalf of juridical person or individual or trust. 5paisa shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person.
- 6.2 The Customers may approach 5paisa to avail the products and services offered through the Mobile/Web or any other channel maintained / managed by 5paisa. 5paisa needs to obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of relationship. In case of new customer, whose KYC is not available in the KRA, CKYC & Digilocker, 5paisa will use the KYC details entered by the customer on the Mobile/Web application for carrying out the KYC verification process. 5paisa must also be able to satisfy the regulators that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place.
In case the investor's KYC is available in the KRA, CKYC & Digilocker system, his/her KYC details and documents will be fetched from KRA, CKYC & Digilocker. 5paisa will upload the KYC details to other regulators, as applicable.
- 6.3 5paisa shall have in place a comprehensive Customer Identification Procedure which details the various documents that 5paisa can take as Identity, Address Proof for various types of customers (**refer Annexure 2**). This Customer Identification Procedure document shall be updated with approvals from Compliance and Business groups, with subsequent ratification by the Board of Directors.
However, merely obtaining identification documents for identity, address and signature proof from the customer does not mean that the KYC is complete. KYC means actually knowing the customer, nature of his business and the purposes for which 5paisa account will be used.
- 6.4 5paisa may ask for periodical updation of customer identification and other data after the account is opened.

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- 6.5 5paisa requests updation and confirmation of existing customer identification and other KYC data from clients who have not transacted in the last 12 (twelve) months across all Exchanges. This is covered in the “Policy for treatment of In-active / Dormant Account”.

7 MONITORING OF TRANSACTIONS:

- 7.1 Ongoing monitoring is an essential element of effective KYC procedures. 5paisa can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity.
- 7.2 5paisa shall have in place a comprehensive transaction monitoring process from a KYC / AML and Surveillance perspective. 5paisa shall put in place strong transaction alerts which will provide proactive signals on suspicious transactions and possible money laundering or market abuse. An indicative list of such alerts is provided with this policy (**refer Annexure 3**). 5paisa AML monitoring team shall endeavour to update the list based on current understanding of the market scenario and trading patterns followed by clients. In addition to the alerts from internal sources, the Surveillance team shall also monitor the alerts provided by the Exchanges and Depositories. Details relating to the compliance with respect to the said circular are elaborated in **Annexure 3**.
- 7.3 On the basis of criticality of the breach, observation of account behaviour, repetitive breaches, the AML Monitoring team shall send a query to the concerned business. Responses would be expected within 7 days. The background including all documents, office records and clarifications pertaining to such transactions and their purpose will be examined carefully and findings will be recorded. If the alerts still persist or the AML Monitoring team is not satisfied with the responses, then the AML query team shall send the query with its observations to the Principal Officer.
- 7.4 5paisa shall put in place a system of periodical review of risk categorization of accounts. Such review of risk categorization of customers shall be carried out at a periodicity of once in five years or such lower frequency as possible or desirable.
- 7.5 Risk Rating is done on a client level i.e. if across different business lines, client is found to be High Risk in any business line, client will be marked as High Risk for all his accounts with 5paisa. For e.g. If he is found to be High Risk for trading account, he is marked as High Risk for DP account as well.
- 7.6 All employees of 5paisa shall monitor transactions related to their day-to-day functioning / job description on a continuous basis and shall report any Cash Transactions and / or Suspicious Transactions to Compliance or directly to the Principal Officer.
It is clarified that employees are obligated to be vigilant and report any such executed or attempted suspicious transaction to Compliance or directly to the Principal Officer as a Suspicious Transaction, even if not completed by Clients, irrespective of the amount of the transaction.
In any case, all employees are required to exercise diligence and proactively alert concerns in compliance with the Group’s Whistleblowing Policy.

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- 7.7 It would be ensured that record of transaction is preserved and maintained in terms of Section 12 of the PMLA 2002 and / or rules made there-under and that transaction of suspicious nature or any other transaction notified under Section 12 of the act is reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the appropriate law authority.
- 7.8 Further the accounts or financial assets shall be frozen for any particular client in case so required by any regulatory authority upon receiving a notice for the same.

8 RISK MANAGEMENT:

- 8.1 The overall responsibility / implementation and adherence of this KYC / AML policy shall lie with the Compliance & Surveillance Unit of 5paisa. The surveillance activities shall be conducted under overall supervision of its Compliance Officer.
- 8.2 The Concurrent / Internal Auditors shall specifically check and verify the application of KYC / AML & Surveillance procedure, scope and coverage of the AML and Surveillance policy and procedure documents, their implementation and effectiveness and shall also review the alerts generated and appropriateness of closure of the alerts and comment on the lapses observed in this regard. The Auditor shall also ensure that a quarterly MIS of alerts (comprising the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure, as also exceptions noticed during the disposal of alerts and reasons for delay in disposal of alerts) is prepared and presented to the Board and verify the accuracy and completeness thereof. The reports and compliance in this regard shall also be put up before the Audit & Compliance Committee of the Board.

9 FREEZING OF ASSETS UNDER SECTION 51A OF THE UNLAWFUL ACTIVITIES PREVENTION ACT (UAPA), 1967:

The Unlawful Activities (Prevention) Act, 1967 (UAPA) was enacted for the prevention of certain unlawful activities of individuals and associations and for matters connected therewith. UAPA has been amended by the Unlawful Activities (Prevention) Amendment Act, 2008. The Government has issued an Order dated August 27, 2009 detailing the procedure for implementation of Section 51A of the UAPA, relating to the purpose of prevention of, and for coping with terrorist activities. In terms of Section 51A, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of or the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism and prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. For this purpose, 5paisa will currently rely on the List updated by third party service providers.

5paisa will adopt the below approach to follow the procedure laid down in the Order and ensure meticulous compliance to the Order:

- a) On receipt of list of individuals and entities subject to UN sanctions from SEBI, procedure prescribed in Section 51A of Unlawful Activities Prevention Act, 1967 (UAPA) with respect to freezing / unfreezing of financial assets, would be implemented expeditiously for prevention of and coping with terrorism finance.

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To maintain updated designated lists in electronic form and a check will be run on a regular basis to verify whether individuals or entities listed in the schedule to the Order (referred to as designated individuals / entities) are holding any funds, financial assets or economic resources with them.

- b) In case, the particulars of any of its customer match the particulars of designated individuals / entities, 5paisa will report immediately, not later than 24 hours from time to time of finding out such customer, full particulars of the funds, financial assets or economic resources or related services held in the form of securities held by such customer on its books to the Nodal Officer for a UAPA / Joint Secretary (CTCR), Ministry of Home Affairs, at Fax No. 011-23092551 and also convey over telephone on 011-23092548. The particulars apart from being sent by post should necessarily be conveyed through e-mail at jsctcr-mha@gov.in.
- c) A copy of the communication mentioned above to the UAPA Nodal Officer of the State / UT where the account is held and to SEBI and FIU-IND, without delay. The communication shall be sent to SEBI through post and through email sebi_uapa@sebi.gov.in to the UAPA Nodal Officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C7, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051. The consolidated list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.
- d) In case the aforementioned details of any of the customers match the particulars of designated individuals / entities beyond doubt, 5paisa would prevent designated persons from conducting any financial transactions.
- e) 5paisa Capital Limited will file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph above, carried through or attempted, as per the prescribed format.

10 WEAPONS OF MASS DESTRUCTION (WMD):

In accordance with the SEBI circular SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/062 dated April 26, 2023 and The Government of India, Ministry of Finance order issued F. No. P-12011/14/2022-ES Cell-ODR dated January 30, 2023, pertaining to Weapons of Mass Destruction (WMD), 5paisa Capital Limited is committed to strict adherence to the regulatory guidelines outlined in the aforementioned circular and order.

In terms of Section 12A of the WMD Act, the Central Government is empowered as under:

“(2) For prevention of financing by any person of any activity which is prohibited under the WMD act, or under the United Nations (Security Council) Act, 1947 or any other relevant Act for the time being in force, or by an order issued under any such Act, in relation to weapons of mass destruction and their delivery systems, the Central Government shall power to freeze, seize or attach funds or other financial assets or economic resources and prohibition to any person from making funds, financial assets or economic resources or related services available for the benefit of persons related to any activity which is prohibited under the aforementioned Act.

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In the event that the particulars of any of our customers align with those of designated individuals/entities, we pledge to promptly report such instances. The full particulars of the funds, financial assets, or economic resources, including those in the form of securities held by such customers on our books, will be expeditiously communicated to the Chief Nodal Officer for WMD.

To ensure a swift and secure reporting process, the relevant particulars will be shared through both traditional mail and email. Specifically, the details are conveyed to the Chief Nodal Officer for the State of Maharashtra at adg.sops@mahapolice.gov.in, with a simultaneous notification via telephone at 7776060781.

Furthermore, a copy of this communication, as specified in point (3), will be reported online or through email (sebi_uapa@sebi.gov.in) to the designated UAPA Nodal Officer of SEBI.

11 COMBATING FINANCING OF TERRORISM (CFT):

- 5paisa shall have a heightened awareness in the system to check for transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism.
- Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all registered intermediaries ensure the fulfilment of the aforementioned obligations.
- Financial groups shall be required to implement group wide programmes for dealing with ML / TF, which shall be applicable, and appropriate to, all branches and majority owned subsidiaries of the financial group as under:
 - a. Policies and procedures for sharing information required for the purposes of CDD and ML/ TF risk management;
 - b. The provision, at group level compliance, audit, and / or AML / CFT functions, of customer, account and transaction information from branches and subsidiaries when necessary for AML / CFT purposes. This shall include information and analysis of transactions or activities which appear unusual (if such analysis was done); similar provisions for receipt of such information by branches and subsidiaries from these group level functions when relevant and appropriate to risk management, and
 - c. Adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

KYC, AML & Surveillance Policy**12 MAINTENANCE OF RECORDS OF TRANSACTIONS / INFORMATION TO BE PRESERVED / MAINTENANCE AND PRESERVATION OF RECORDS / CASH AND SUSPICIOUS TRANSACTIONS REPORTING TO FINANCIAL INTELLIGENCE UNIT-INDIA (FIU-IND):**

12.1 Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 01, 2005 in the Gazette of India, has notified the Rules under the PMLA Act, 2002. In terms of the Rules, the provisions of PMLA Act, 2002 came into effect from July 01, 2005. Section 12 of the PMLA, 2002 casts certain obligations on financial institutions in regard to preservation and reporting of customer account information.

12.2 Maintenance of Records of Transactions:

5paisa shall have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below:

- a) all cash transactions of the value of more than Ten lakh rupees or its equivalent in foreign currency;
- b) all series of cash transactions integrally connected to each other which have been individually valued below Rupees Ten Lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of Ten Lakh rupees or its equivalent in foreign currency;
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;
- c) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
- d) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules;
- e) all transactions involving receipts by non-profit organisations of value more than Rupees Ten Lakh, or its equivalent in foreign currency.

12.3 Information to be Maintained:

5paisa shall maintain the following information in respect of transactions referred to in Rule 3 of the Rules including all necessary information specified by the regulator to permit reconstruction of individual transactions in respect of transactions referred to in Rule 3 of the Rules:

- a) the nature of the transactions;
- b) the amount of the transaction and the currency in which it was denominated;
- c) the date on which the transaction was conducted; and
- d) the parties to the transaction.

12.4 Maintenance and Preservation of Records:

12.4.1 5paisa shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, 5paisa shall maintain for such number of years as would be required under

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the PMLA 2002 and Rules made there-under from the date of transaction between 5paisa and the client, all necessary records of transactions, both domestic or international, which will permit / facilitate reconstruction of individual transactions (including the amounts and types of currency involved if any) as also its own findings, conclusions and clarifications received, so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity. To enable this reconstruction, 5paisa shall retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail:

- the beneficial owner of the account;
- the volume of the funds flowing through the account; and
- for selected transactions;
- the origin of the funds;
- the form in which the funds were offered or withdrawn, e.g. cash, cheques, etc.;
- the identity of the person undertaking the transaction;
- the destination of the funds;
- the form of instruction and authority.

5paisa shall ensure that all client and transaction records and information are made available on a timely basis to the competent investigating authorities.

12.4.2 5paisa shall maintain and preserve records of documents evidencing the identity of its clients and beneficial owner and his address (e.g. copies of documents like passports, identity cards, Aadhaar card, driving licenses, PAN card, bank statement, utility bills, e-KYC data shared by KUA, etc.) while opening the account and during the course of business relationship. These records are properly preserved for such number of years as would be required under the PMLA 2002 and Rules made there-under after the business relationship is ended or the account has been closed whichever is later. The identification records and transaction data should be made available to the competent authorities upon request.

12.4.3 Record generation, maintenance and retention –

For the purpose of the record keeping provision, we should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-Laws and Circulars.

- a) Records of the all trading details of the client needs to be stored for such number of years as would be required under the PMLA 2002 and rules made there-under.
- b) Records shall be maintained in hard and / or soft copies.

In situations where the records relate to on-going investigations or transactions, which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

Where required by the investigating authority, 5paisa shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchanges Bye-Laws or Circulars.

KYC, AML & Surveillance Policy**12.5 Reporting to Financial Intelligence Unit-India and Other Regulatory Bodies:**

12.5.1 In terms of the Rules, 5paisa shall report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

The Director, FIU-IND

Financial Intelligence Unit-India,

6th Floor, Tower-2,

Jeevan Bharati Building,

Connaught Place,

New Delhi – 110001.

Website: <https://fiuindia.gov.in/>

Telephone: 91-11-23319793 (Helpdesk)

Email:

helpdesk@fiuindia.gov.in (For FINnet and general queries)

ctrcell@fiuindia.gov.in (For Reporting Entity / Principal Officer registration related queries)

12.5.2 In case of adverse observations or abnormal activity are recorded during transaction monitoring or instances of potential money laundering or market abuse are discovered, 5paisa shall report all such instances along with the details of the adverse observations to the Exchange / Regulatory Authorities within the stipulated timelines.

12.5.3 Counts of alerts and reporting made to FIU shall be submitted to Exchanges / Depositories or regulators at the monthly / quarterly intervals as specified by Exchanges / Depositories or regulators from time to time.

12.5.4 Suspicious Transaction Monitoring and Reporting (STR):

i. The Suspicious Transaction Report (STR) shall be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Non-Profit Organization Transaction Reports (NTRs) for each month shall be submitted to FIU-IND on or before the 15th of the succeeding month. Confidentiality shall be maintained in filing of STR and NTR to FIU-IND.

The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a head office or any other office. Such report shall be made available to the competent authorities on request.

Utmost confidentiality shall be maintained in filing of CTR, STR and NTR to FIU-IND. No nil reporting needs to be made to FIU-IND in case there are no cash / suspicious / non-profit organization transactions to be reported.

“Non-profit organization means any entity or organization, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income Tax Act, 1961 (43 of 1961), that is registered as a trust or a society under the Societies

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Registration Act, 1860 (21 of 1860) or any similar State legislation or a Company registered under the section 8 of the Companies Act, 2013 (18 of 2013);”

- ii. While determining suspicious transactions, 5paisa shall be guided by definition of suspicious transaction as amended from time to time.
- iii. An indicative list of suspicious activities contained is provided along with this policy.
- iv. While ensuring that there is no tipping off to the customer at any level, 5paisa shall also ensure not to put restrictions on operations in the accounts where an STR has been made. This prohibition on tipping off extends not only to the filing of the STR and / or related information but even before, during and after the submission of an STR. It shall ensure that there is no information to the client at any level, of the report or about our suspicion. Irrespective of the amount of transaction and / or the threshold limit envisaged for predicate offences specified in Part B of Schedule of PMLA, 2002, it shall file STR if have reasonable grounds to believe that the transactions involve proceeds of crime.
- v. It shall be ensured that there is continuity in dealing with the client as normal until instructed otherwise by any regulatory authority. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, for reasons recorded in writing.
- vi. In some cases, transactions may be abandoned or aborted by clients on being asked to give some additional details or to provide documents. In such cases, 5paisa shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.
- vii. Confidentiality requirement does not inhibit information sharing among entities in the group.
- viii. 5paisa shall maintain updated designated lists / negative lists for screening purposes in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed therein are holding any funds, financial assets or economic resources or related services held in the form of securities with them. In the event, particulars of any of customer(s) match the particulars of designated individuals / entities, subject to UN Sanctions, 5paisa from the time of finding out such customer, shall immediately and not later than 24 hours after such detection, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such customer on their books to the Joint Secretary (CTCR), Ministry of Home Affairs at Fax No. 011 – 23092551 and also convey over Telephone No. 011 – 23093124. 5paisa shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered and carried through or attempted as per the prescribed format. The particulars apart from being sent by post will be conveyed through email at jsctcr-mha@gov.in and sebi_uapa@sebi.gov.in

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In case the aforementioned details of any of the customers match the particulars of designated individuals / entities beyond doubt, 5paisa would prevent designated persons from conducting any financial transactions.

13 PRINCIPAL OFFICER:

Presently the Compliance Officer shall be appointed as the Principal Officer of the Company. The Principal Officer shall be facilitated to discharge duties with independence and appropriate level of authority. The decision of the Principal Officer to report a transaction to FIU-IND shall be final and binding.

14 DESIGNATED DIRECTOR:

The Whole Time Director In-charge of Operations shall be appointed as the Designated Director of the Company and details thereof be intimated to FIU consequent to SEBI - CIR/MIRSD/112014 dated March 12, 2014.

15 CUSTOMER EDUCATION / EMPLOYEE'S TRAINING / EMPLOYEE'S HIRING:**15.1 Customers / Investors' Education:**

Implementation of KYC procedures require 5paisa to demand certain information from customer which may be of personal nature or which has hitherto never been called for or which do not appear in the standard checklists. This sometimes leads to a lot of questioning by the customer as to the motive and purpose of collecting such information. The Relationship Managers of 5paisa shall be trained to explain to the customers the regulatory requirements and benefits of adhering to the KYC guidelines and seek co-operation of the customer. 5paisa shall put up an extract of this policy on its website to educate clients regarding the objectives and broad framework of the AML / CFT programme.

15.2 Employee's Training:

5paisa shall have an ongoing employee training programme so that 5paisa's staff are adequately trained in KYC / AML procedures and fully understand the rationale behind the KYC / AML policies and implement them consistently.

15.3 Hiring of Employees:

KYC norms / AML standards / CFT measures have been prescribed to ensure that criminals are not allowed to misuse 5paisa infrastructure. It should therefore, be necessary that adequate screening mechanism is put in place by 5paisa as an integral part of their recruitment / hiring process of personnel.

The Human Resources department of 5paisa confirms the previous employment details given by the employee with prior employer. Further, 5paisa account of the employee is compulsorily required to be opened with 5paisa, which is subject to the KYC requirements of 5paisa.

KYC, AML & Surveillance Policy**16 REVIEW OF POLICY:**

This policy will be reviewed at least once in a year by the Principal Officer and Designated Director for FIU (PMLA) or at such lesser frequency as may be required due to changes in regulatory framework. Views of concerned Business Heads and Chief of Internal Audit, if any, may be taken into the account where the management finds it necessary to do so. Revised versions of the policy shall be reviewed, approved and adopted by the Board of Directors of 5paisa Capital Limited.

This policy has been reviewed and updated to incorporate all regulatory requirements including those mentioned in SEBI Master Circulars.

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ANNEXURE 1

RISK CATEGORIZATION:

Type	Risk Perception	Recommended Risk Categorization
Salaried	Source of income is fixed and pattern of entries in the account can be correlated with known sources of income / expenditure.	Low Risk
Senior Citizens	Source of income for trading related purposes not known clearly. May be operated by third parties. Will be considered high risk in case operating in FAO.	Medium / High Risk
Housewife	Source of income for trading related purposes not known clearly. May be operated by third parties. Will be considered high risk in case operating in FAO.	Medium / High Risk
Self Employed – Professionals / Businessmen	Accounts maintained by Chartered Accountants, Architects, Doctors, Lawyers, Sportsmen, etc.	Low Risk (except professionals associated with the film industry who will be categorized as “Medium” risk)
Non-Resident Individuals	Non-resident clients are categorized as “Clients of Special Category (CSC)” as per SEBI. CSCs are to be classified as High as they require high degree of due diligence.	High Risk
Politically Exposed Persons Resident outside India	<p>Politically Exposed Persons (PEPs). PEP shall have the same meaning as given in clause (db) of sub rule (1) of Rule 2 of the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005. The additional norms applicable to PEP as contained in paragraph 14 of the Master Circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs.</p> <p>Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, Senior Politicians, Senior Government / Judicial / Military Officers, Senior Executives of State-Owned Corporations, Important Political Party Officials, etc.</p> <p>We should gather sufficient information on any person / customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Front end staff should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. Such accounts should be subjected to</p>	High Risk

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	<p>enhanced monitoring on an ongoing basis. The above norms should also be applied to the accounts of the family members and close relatives / associates of PEPs. Further 5paisa may maintain a list of additional accounts as “Designated PEP”. The accounts of Politically Exposed Persons shall be opened only after obtaining the approval of the senior management / compliance officer. Further, in the event of an existing customer or the beneficial owner of an account subsequently becoming PEP, Senior Management approval would be required to continue the business relationship and such accounts would be subjected to Customer Due Diligence measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis.</p> <p>In such events 5paisa shall be guided by the information provided by the clients or front end teams. Networth as well income range shall both be mandatory in case of PEP accounts.</p>	
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Note: If any of the above accounts are operated by Power of Attorney (POA) holder / mandate holder, then the account will be categorized as “High Risk”.

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RISK CATEGORIZATION FOR ACCOUNTS IN THE NAME OF NON-INDIVIDUALS

Risk categorization of Non Individual customers can be done basis:

A. Type of Entity:

Type	Risk Perception	Recommended Risk Categorization
Private Limited / Public Limited Companies	Depending on the clarity of the shareholding structure and the nature of operations, such companies would be classified.	Low / Medium / High Risk
Local Authorities or Public Bodies	They are constituted under Special Acts. Operations are governed by such Acts / Rules.	Low Risk
Public Sector Undertakings, Government Departments / Undertakings, Statutory Corporations	These types of entities are governed by specific Acts. Notifications etc. framed by the Government of India or the State Government and are controlled and run by the Government.	Low Risk
Mutual Funds / Scheduled Commercial Banks / Insurance Companies / Financial Institutions	These entities are strictly regulated by their respective regulators.	Low Risk
Partnership Firms	Depending on the clarity of the shareholding structure and the nature of operations, such entities would be classified.	Low / Medium / High Risk
Trusts – Public Charitable Trust	-	High Risk
Trusts – Private Trust	These may be unregistered trusts and the pattern of entries in the account may not be correlated with known sources of income / expenditure.	High Risk
Hindu Undivided Family (HUF)	These are unregistered bodies and the pattern of entries in the account may not be correlated with known sources of income / expenditure.	Medium Risk
Societies / Associations / Clubs	These are not highly regulated entities and the pattern of entries in the account may not be correlated with known sources of income / expenditure.	High Risk (except “Housing Societies” which will be categorized as “Low Risk”)
Co-operative Banks	These are not highly regulated entities.	High Risk
NGO, Organisations receiving donations	These are not highly regulated entities and may receive cash donations.	High Risk

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B & C. BASIS INDUSTRY AND COUNTRY OF DOMICILE

Risk Category	Industry	Country of Domicile
High	The Risk categorization is dependent on industries which are inherently High Risk or may exhibit high cash intensity, as below: Drugs and Arms Dealer Money Changer Exchange Houses Gems / Jewellery / Precious Metals / Bullion Dealers (including sub-dealers) Real Estate Agents Construction Offshore Corporation Art / Antique Dealers Restaurant / Bar / Casino / Night Club Import / Export Agents (Traders; goods not used for own manufacturing / retailing) Share & Stock Broker Finance Companies (NBFC) Transport Operators Auto Dealers (used / reconditioned vehicles / motorcycles) Scrap Metal Dealers Liquor Distributorship Commodities Middlemen Co-operative Banks Car / Boat / Plane Dealerships/ Brokers Multi-Level Marketing (MLM) Firms	
Medium	None	NA
Low	All other industries not mentioned in High Risk category.	NA

Notes:

- Higher Risk Categorization derived from either A or B or C shall be the applicable risk categorization for the account.
- Lowering of Risk classification shall be carried out by the Compliance Officer. This shall be done only where adequate justifications can be provided and the same are mentioned along with the account opening form.
- Such justifications shall be reviewed 3 months from the date of opening / first transaction in order to ensure that the classification is proper.
- Based on the above categorization the transaction review process will take place.
- Additionally, in case an account is opened wherein a POA to operate the account is provided to another person. Such accounts shall be placed under the High Risk category.

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ANNEXURE 2

CUSTOMER IDENTIFICATION PROCEDURE FOR ACCOUNT OPENING:

Customer identification means identifying the customer and verifying his / her identity by using reliable, independent source documents, data or information. Also, where the client purports to act on behalf of juridical person or individual or trust, 5paisa shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person. Based on risk perception, type / entity of customer, segment of customer following features shall be verified with supporting documents obtained from the customers –

INSTRUCTIONS / CHECKLIST FOR FILLING KYC FORM:

A. IMPORTANT POINTS:

- ❖ Self-attested copy of PAN card or scan of the original PAN is mandatory for all clients, including Promoters / Partners / Karta / Trustees and Whole Time Directors and persons authorized to deal in securities on behalf of company / firm / others.
- ❖ Copies of all the documents submitted by the applicant should be self-attested or certified and accompanied by originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the below mentioned list.
- ❖ If any proof of identity or address or any other document is in a foreign or vernacular language, then translation into English is required.
- ❖ Name & Address of the applicant mentioned on the KYC form, should match with the documentary proof submitted.
- ❖ If correspondence & permanent addresses are different, then proofs for both have to be submitted.
- ❖ Sole proprietor must take the application in his individual name & capacity.
- ❖ For non-residents and foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of Passport / PIO Card / OCI Card and Overseas Address proof is mandatory.
- ❖ In case of Merchant Navy NRIs, Mariner's declaration or certified copy of CDC (Continuous Discharge Certificate) is to be submitted.
- ❖ For opening an account with Depository participant or Mutual Fund, for a minor, photocopy of the School Leaving Certificate / Mark Sheet issued by Higher Secondary Board / Passport of Minor / Birth Certificate must be provided.
- ❖ Politically Exposed Persons (PEP) are defined as individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, Senior Politicians, Senior Government / Judicial / Military Officers, Senior Executives of State Owned Corporations, important political party officials, etc.

B. PROOF OF IDENTITY (POI): List of documents admissible as Proof of Identity:

- a) PAN Card with photograph.
- b) Unique Identification Number (UID) (Aadhaar) / Passport / Voter ID Card / Driving License (Additional).
- c) Identity Card / Document with applicant's Photo, issued by any of the following: Central / State Government and its Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council, etc., to their Members and Credit Cards / Debit Cards issued by Banks.

KYC, AML & Surveillance Policy**C. PROOF OF ADDRESS (POA):** List of documents admissible as Proof of Address:
(*Documents having an expiry date should be valid on the date of submission.)

Officially Valid Document (OVD) - * Passport / Voters Identity Card / Aadhaar Card (Aadhaar Number to be masked by the client) / Driving License / NREGA Job Card / National Population Register Letter in order to process the individual customer KYC unless KYC details are available with KRA / CKYC / Digilocker.

If the above officially valid documents furnished by the client does not contain updated address, the following documents shall be deemed POA. The client shall submit updated officially valid document with current address within a period of three months of submitting the below documents to us:

- a) Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile paid, piped gas, water bill).
- b) Property or Municipal Tax receipt.
- c) Pension of family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address.
- d) Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation.

In case the officially valid document presented by a foreign national does not contain the details of address, in such case the documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India shall be accepted as proof of address.

- e) Name & Address of the applicant mentioned on the KYC form, should match with the documentary proof submitted.
- f) Aadhaar Letter issued by UIDAI shall be admissible as Proof of Address in addition to Proof of Identity.
- g) e-KYC service launched by UIDAI shall also be accepted as a valid process for KYC verification. The information containing the relevant client details and photograph made available from UIDAI as a result of e-KYC process shall be treated as a valid proof of address.

D. EXEMPTIONS / CLARIFICATIONS TO PAN:

(*Sufficient documentary evidence in support of such claims is to be collected.)

- a. In case of transactions undertaken on behalf of Central Government and / or State Government and by officials appointed by Courts e.g., Official Liquidator, Court Receiver, etc.
- b. Investors residing in the state of Sikkim.
- c. UN entities / multilateral agencies exempt from paying taxes / filing tax returns in India.
- d. SIP of Mutual Funds upto Rs. 50,000/- per annum.
- e. In case of institutional clients, namely, FPI, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State

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Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 2(72) of the Companies Act, 2013. Custodians shall verify the PAN Card details with the original PAN Card and provide duly certified copies of such verified PAN details to the intermediary.

E. LIST OF PEOPLE AUTHORIZED TO ATTEST THE DOCUMENTS:

- a) Notary Public, Gazetted Officer, Manager of a Scheduled Commercial Banks (Name, Designation and Seal should be affixed on the copy).
- b) In case of NRIs, authorized officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy / Consulate General in the country where the client resides are permitted to attest the documents.

F. In case of Non Individuals, additional documents to be obtained from non-individuals, over & above the POI & POA, as mentioned below:

Type of Entities	Documentary Requirements
Corporate	<ul style="list-style-type: none"> ➤ Copy of the balance sheet / Annual Report or the last 2 financial years (to be submitted every year). ➤ Copy of latest shareholding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI Takeover Regulations, duly certified by the Company Secretary / Whole Time Director / MD (to be submitted every year). ➤ List of all Directors with details as Full Name, Date & Place of Birth. ➤ Photograph, POI, POA, PAN & DIN numbers of Whole Time Directors. ➤ Photograph, POI, POA, PAN of individual promoters holding control – either directly or indirectly. ➤ Copies of the Memorandum and Articles of Association and certification of incorporation. ➤ Copy of the Board Resolution for investment in securities market along with any two Directors / one Authorised Person in charge of day-to-day operations. ➤ Declaration from UBO / SMO with details as Full Name, Date & Place of Birth, Citizenship, Country of Residence, Position in company. ➤ Authorised signatories list with specimen signatures.
Partnership Firm	<ul style="list-style-type: none"> ➤ Copy of the Balance sheet / Annual Report for the last 2 financial years (to be submitted every year). ➤ Certificate of Registration (for Registered Partnership Firms only). ➤ Copy of Partnership Deed. ➤ Authorised signatories list with specimen signatures along with Authorisation Letter and Photograph, POI, POA, PAN of all Partners. ➤ Partnership firm resolution to authorise any one of the Partners for operating the account.

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Trust	<ul style="list-style-type: none"> ➤ Copy of the Balance sheet / Annual Report for the last 2 financial years (to be submitted every year). ➤ Certificate of Registration (for registered trust only). ➤ Copy of Trust Deed. ➤ List of Trustees certified by Managing Trustees / CA. ➤ Trust Resolution to authorise any one or more than one trustee for opening and operating the account. ➤ Photograph, POI, POA, PAN of Trustees & Authorised Trustee(s).
HUF	<ul style="list-style-type: none"> ➤ Deed of declaration of HUF / List of Coparceners. ➤ Bank Passbook / Bank Statement in the name of HUF. ➤ Photograph, POI, POA, PAN of Karta.
Unincorporated association or a body of individuals	<ul style="list-style-type: none"> ➤ Proof of Existence / Constitution document. ➤ Resolution of the managing body & Power of Attorney granted to transact business on its behalf. ➤ Authorized signatories list with specimen signatories. ➤ Declaration from SMO with details as Full Name, Date & Place of Birth, Citizenship, Country of Residence, Position in company. ➤ Copy of Balance sheets for the last 2 financial years (to be submitted every year).
Banks / Institutional Investors	<ul style="list-style-type: none"> ➤ Copy of the Constitution / Registration or Annual Report / Balance Sheet / Annual Report for the last 2 financial years. ➤ Authorized signatories list with specimen signatures. ➤ Declaration from UBO / SMO with details as Full Name, Date & Place of Birth, Citizenship, Country of Residence, Position in company. ➤ List of all Directors with details as Full Name, Date & Place of Birth.
Foreign Portfolio Investors (FPI)	<ul style="list-style-type: none"> ➤ Copy of SEBI Registration Certificate. ➤ Authorized signatories list with specimen signatures. ➤ Declaration from SMO with details as Full Name, Date & Place of Birth, Citizenship, Country of Residence, Position in company. ➤ List of all Directors with details as Full Name, Date & Place of Birth.
Army / Government Bodies	<ul style="list-style-type: none"> ➤ Self-certification on letterhead. ➤ Authorized signatories list with specimen signatures.
Registered Society	<ul style="list-style-type: none"> ➤ Copy of Registration Certificate under Societies Registration Act. ➤ List of Managing Committee members. ➤ Committee resolution for persons authorised to act as authorized signatories with specimen signatures. ➤ True copy of Society Rules and Bye Laws certified by the Chairman / Secretary.

G. ADDITIONAL DOCUMENTS TO BE TAKEN IN CASE CLIENTS WANT TO OPEN ACCOUNTS IN FAO / CURRENCY / COMMODITY SEGMENTS –

Obtaining financial information from client trading in derivatives segment:

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1. 5paisa shall review and update periodically client information in the Client Registration Form and are also advised to ensure that client registration details including financial details of the clients are obtained and updated at regular intervals.
2. 5paisa shall collect documentary evidence of financial details provided by the clients who opt to deal in the derivative segment at the time of registration and at the time of annual updation.

An illustrative list of documents which 5paisa may collect from its clients (towards documentary evidence of financial details) is as below:

- a. Copy of ITR Acknowledgement.
- b. Copy of Annual Accounts.
- c. Copy of Form 16 in case of salary income.
- d. Networth Certificate – CA certified.
- e. Salary Slip.
- f. Bank Account Statement for last 6 months.
- g. Copy of Demat Account Holding Statement along with valuation.
- h. Any other relevant documents substantiating ownership of assets.

ANNEXURE 3**AN INDICATIVE LIST OF SUSPICIOUS ACTIVITIES & PROCEDURE FOR DISPOSAL OF ALERTS:**

Whether a particular transaction is suspicious or not will depend upon the background details of the client, details of the transactions and other facts and circumstances. Following are the circumstance, which may be in the nature of suspicious transactions: -

- a) Clients whose identity verification seems difficult or clients appears not to co-operate;
 - b) Asset management services for clients where the source of the funds is not a clear or not in keeping with clients apparent standing / business activity;
 - c) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
 - d) Substantial increases in business volume without apparent cause;
 - e) Unusually large cash deposits made by an individual or business;
 - f) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
 - g) Transfer of investment proceeds to apparently unrelated third parties;
 - h) Off market transactions in the DP account of the clients;
 - i) High trading activity in the relatively illiquid scrips;
 - j) Major trading activity in the Z and T to T category scrips;
 - k) Options trading / Trading in Illiquid scrips wherein client has booked unusual profit or loss which does not commensurate with the changes in the prices of underlying security in the cash segment;
 - l) High exposures taken by client as compared to income levels informed by clients.
 - m) Unusual transactions by CSCs or “High Risk status” and businesses undertaken by shell corporations, offshore banks / financial services, businesses reported to be in the nature of export-import of small items.
- ❖ NSE & BSE has issued circulars dated March 07, 2013 on Surveillance Obligations for Trading Members. Further, to an update to the above circulars, both NSE & BSE have issued circulars dated July 01, 2021. The circular lays down the guidelines to be followed to monitor surveillance related alerts provided by the NSE & BSE from time to time. In this regard process to be followed is provided below:
1. All exchange alerts shall be reviewed by the surveillance team.
 2. In case of any suspicious activity observed –
 - a. Client would be required to provide explanation.
 - b. We may ask clients to provide KYC related information.
 - c. Further documentary evidence such as bank and depository account statements may be called for.
 - d. Post analyzing the documentation the results for the same would be recorded and in case of adverse remarks the same would be informed to the exchanges within 45 days from the alert date, unless suitable extension is taken from the exchange.

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3. Various indicative themes provided to detect potentially suspicious trading transactions are:
 - Client / group of clients as
 - Client / group of clients dealing frequently in small quantities / minimum market lot in a scrip / contract
 - Disproportionate trading activity vs reported income / Networth.
 - Frequent changes in KYC submitted by clients.
 - Based on an announcement by a listed company, identify Client / group of Clients, having possible direct / indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company.
 - Client / group of Clients having significant selling concentration in the scrips, forming part of “For Information List” or “Current Watch List”.
 - Consistency in profit / loss at client / group of clients levels, rationale for such trading activities.
 - Significant trading activity in scrips by client who has pledged the shares of same scrip.
 - In case of concerns of trading activity of a client or a group of clients in a scrip, monitoring whether the orders are being placed by respective clients or their authorized representatives and monitoring client’s address as per KYC vis a vis the dealing office address.
 - The indicative themes additionally applicable to Trading members who are Depository Participants – Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions.
 - The indicative themes additionally applicable to Trading members who have facility of internet-based trading – Surveillance / Monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location).
 - Significantly increase in client activity – Cash segment.
 - Sudden trading activity in dormant account – Cash segment.
 - Client(s) / Group of Client(s), deal in common scrips – Cash segment.
 - Client(s) / Group of Client(s) is concentrated in a few illiquid scrips – Cash segment.
 - Client(s) / Group of Client(s) dealing in scrip in minimum lot size – Cash segment.
 - Client(s) / Group of Client(s) Concentration in a scrip – Cash segment.
 - Circular Trading – Cash segment.
 - Pump and Dump – Cash segment.
 - Wash Sales – Cash & Derivatives segment.
 - Reversal of Trades – Cash & Derivatives segment.
 - Front Running – Cash segment.
 - Concentrated position in the Open Interest / High Turnover concentration – Derivatives segment.
 - Order book spoofing i.e. large orders away from market – Cash segment.
- ❖ MCX had issued Circular No.: MCX/S&I/380/2016 dated November 03, 2016 & Circular No.: MCX/S&I/456/2018 dated October 31, 2018 on Surveillance Obligations for Trading Members. Further, to an update to the above circulars, MCX had issued Circular No.: MCX/S&I/796/2020 dated October 26, 2020. With a view to facilitate effective surveillance at the Member level, the Exchange has been providing transactional Alerts to the Members, the

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Exchange will be providing following alerts with the corresponding periodicity as mentioned below:

- Significant increase in client activity – Monthly.
 - Sudden trading activity in dormant account – Monthly.
 - Concentrated Open Interest position – Daily.
 - High Turnover concentration – Weekly.
 - Large Trade (Quantity) – Daily.
 - Order Spoofing – Daily.
- ❖ FIU-India has issued guidelines and supplemental guidelines for detecting suspicious transactions dated March 11, 2016, January 02, 2018 and July 21, 2022. The applicable indicators which are applicable to Trading Members and Depository Participants for Transaction Monitoring are as under:
- Artificial Volume Creation.
 - High Value Deals.
 - Synchronized, Cross and Self Trades.
 - Turnover vis-a-vis financial income submitted by the client.
 - High Value transactions in a new account.
 - High Value transactions in a dormant account.
 - Frequent small quantity transactions in an account.
 - Structuring of purchases.
 - Trading in Illiquid scrips.
 - Fund received from Non-Clients.
 - Margin Trading.
 - Off-Market transfer to unrelated accounts.
 - Suspicious Off-Market Credit and Debit.
 - Off-Market Delivery in Unlisted Scrip.
 - Gift, Donation related Off-Market transfer.
 - Off-Market transfer at variance with market value.
 - Off-Market transfer in Suspicious scrip.
 - Suspicious Closure of Account.
- ❖ NSDL & CDSL has issued circulars dated July 15, 2021 on Surveillance Obligations of Depository Participants. These circulars seek to strengthen the framework laid down by Stock Exchanges by requiring Depository Participants also to put in place a Surveillance Framework. Accordingly, the various indicative themes provided to detect potentially suspicious transactions are:
- Alert for multiple Demat accounts opened with same demographic details: Alert for accounts opened with same PAN / Mobile Number / Email ID / Bank Account No. / Address considering the existing Demat accounts held with the Participant.
 - Alert for communication (emails / letter) sent on registered Email ID / Address of Clients are getting bounced.
 - Frequent changes in details of Demat account such as Address, Email ID, Mobile Number, Authorized Signatory, POA Holder, etc.
 - Frequent Off-Market transfers by a client in a specified period.
 - Off-Market transfers (High Value) immediately after modification of details in Demat account.

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- Review of reasons of Off-Market transfers provided by client for off-market transfers vis a vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts / Donation to unrelated parties, frequent transfers with reason code off-market sales.
- Alert for newly opened accounts wherein sudden increase in transactions activities in short span of time and suddenly holding in Demat account becomes zero or account becomes dormant after some time.
- Off-Market transfers and pledge transactions not commensurate with the Income / Networth of the client.
- Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

For alerts received from Depositories, process to be followed is provided below –

1. All depository alerts shall be reviewed by the AML & Surveillance Transaction Monitoring team.
2. In case of any suspicious activity observed –
 - a) Client would be required to provide explanation.
 - b) We may ask clients to provide KYC related updates.
 - c) Further documentary evidence such as bank depository account statements may be called for.
 - d) Post analyzing the documentation received, if any, the results of analysis of the alert would be recorded and in case of adverse remarks or detection of abnormal activity, the same would be informed to the concerned depository within 30 days from the alert generation.

❖ **Enhanced Obligations and Responsibilities on Qualified Stock Brokers (QSBs) –** Comprehensive Operating Guidelines on Enhanced obligations and responsibilities for QSBs: NSE & BSE has issued circulars dated June 01, 2023. As per the Annexure A, Point No C. Surveillance of client behaviour: QSBs shall monitor the following alerts on monthly basis:

1. Clients having significantly higher Pay-in obligation compared to Income declared or Networth uploaded in the UCC system of the Exchange.
2. Unrelated clients having common Mobile Numbers or Email IDs.
3. Unrelated clients having used common devices for trading. (Using device identifiers data)
4. Monitor client activity specifically in deep OTM contracts where clients are incurring losses.
5. Regular campaigns with respect to password sharing.
6. Repeated delivery default by a client wherein a default on delivery obligations takes place 3 times or more during a six-month period on a rolling basis.

Further, QSBs shall monitor the following alerts on daily basis:

1. Close monitoring to client onboarding process including factors like clients on-boarded from same location, after onboarding clients holding concentrated same side position in a particular commodity / scrip. Regular interaction with retail clients trading only in options from product suitability perspective.
2. Orders / Trades resulting into artificial boost in the price of a stock. Patterns such as Pump and Dump and vice versa.

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3. Client placing large orders and cancelling such orders without intention to execute a trade and creating a false impression of artificial demand in the scrips.
4. Order spoofing client activity.
5. Client / Related client's concentration in scrip to Exchange volumes.
6. Circular Trading / Reversal Pattern.
7. Maintenance of client watchlist based on historical market manipulations observed at TM end. Monitoring of such clients.
8. Front Running by Dealers / Clients to large trades of Trading Member.
9. Compliance of Surveillance Obligation circular NSE/SURV/48818. Monitoring of themes enumerated by Exchange in point 2.
10. Pro-actively identifying manipulative / Error trades / Fat Finger by placing adequate preventive / detective controls.
11. Monitoring of trading activity of clients in Long dated option contracts.
12. Effective monitoring of trading activity of clients in stocks forming part of Surveillance actions (ASM, GSM, unsolicited messages framework).
13. Effective monitoring of other Market Abuse practices covered under SEBI (FUTP) Regulations and SEBI (PIT) Regulations.
14. Linked clients being on the same side i.e. Long or Short and cumulatively controlling substantial proportion of the market open interest in a particular commodity / contract.

Note: A quarterly report to be provided to the Exchange on MSD portal within 15 days from end of the quarter.