

Rainbow Securities Private Limited

21, Hemant Basu Sarani

3rd Floor, Room No. 305

Kolkata - 700001

Contact : ☎ 033-22135183/84 ✉ info@rainbowindia.co.in

CIN : U67120WB1994PTC065293

Policy Revised by : Compliance Head	Policy Revised on : 13 th Feb 2025
Policy reviewed by : Board of Directors	Policy reviewed on : 17 th Feb 2025
Periodicity of Review periodicity	Yearly
Version number	V.11
Officer responsible for implementation: Compliance Officer & Principal Officer.	

Rainbow Securities Private Limited had designed this policy on *the PMLA and the effective AML program* to prohibit and actively prevent the money laundering and any activity that facilitates money laundering or the funding of terrorist/criminal activities or flow of illegal money or hiding money to avoid paying taxes, to discourage and identify any money laundering or terrorist financing activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets. Maintain records of such nature and value of transactions to protect the interests of investors in securities, to promote the development of security market and also to regulate the securities market.

This policy provides a detailed account of the procedures and obligations to be followed to ensure compliance and issues related to

(i) **Know Your Client (KYC);**

(ii) **Anti Money Laundering (AML);**

(iii) **Client Due Diligence (CDD);**

(iv) **Combating the Financing of Terrorism (CFT)**

Policy specifies the need for additional disclosures to be made by the clients to address concerns of money laundering and suspicious transactions undertaken by clients and report the same to **Finance Intelligent Unit (FIU-IND)**. These policies are reviewed from time to time or on yearly basis.

Every possible measure has been adopted for the effective implementation of the policy. The measures taken are adequate, appropriate and abide by the

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CIN : U67120WB1994PTC065293

spirit of such measures and requirements as enshrined in the PMLA to the best of our satisfaction.

INTRODUCTION:

Background:

Pursuant to the recommendation made by the **Financial Action Task Force (FATF)** on Anti Money Laundering Standards, SEBI had issued the guidelines on Anti Money Laundering Standards vide their notification no. ISD/CIR/RR/AML/1/6 dated 18th January, 2006 and vide letter no. ISD/CIR/RR/AML/2/6 dated 20th March, 2006 had issued the obligations of intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992. As per the SEBI guidelines, all intermediaries have been advice to ensure that proper policy frameworks are put in place as per the guidelines on Anti Money Laundering Standards notified by SEBI.

What is Anti Money Laundering?

As per the PMLA, 2002, money laundering has been defined as **“any process or activity connected with proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property”**. In other words Money Laundering can be defined as engaging in financial transaction(s) that involve income derived from criminal activities, transaction(s) designated to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/funds.

This is done in below mentioned three phases

1. Placement Phase

2. Layering Phase

3. Integration Phase

❖ **Financial Intelligent Unit – India (FIU-IND)**

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The Government of India set up Financial Intelligent Unit - India (FIU) on 18th November, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

FIU-IND has been established as the national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transaction. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

❖ **The Prevention of Money Laundering Act, 2002 (PMLA)**

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July, 2005. Necessary notifications / rules under the said act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue under Ministry of Finance of Government of India.

As per the PMLA, every banking company, financial institution (which includes chit fund company, co-operative bank, housing finance institution and non-banking financial company) and intermediary (which includes stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) 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. For the purpose of the PMLA, transactions include:

- ✓ All cash transactions of the value of more than **Rs.10 lakh** or its equivalent in foreign currency.
- ✓ All series of cash transactions integrally connected to each other, which have been valued below **Rs.10 lakh** or its equivalent in foreign currency, such series of transactions within one calendar month.
- ✓ All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into/from any non-monetary account such as Trading Account, Demat Account, Security Account maintained by the Rainbow Securities Private Limited.

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- ✓ For the purpose of suspicious transactions reporting apart from transactions integrally connected', transactions remotely connected or related need to be considered.

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

- ✓ 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 bona fide purpose.

The Anti-Money Laundering Guidelines provides a general background on the subjects of money laundering and terrorist financing in India and provides guidance on the practical implications of the PMLA. The PMLA Guidelines set out the steps that a registered intermediary and any of its representatives, need to implement to discourage and identify any money laundering or terrorist financing activities.

OBJECTIVE :

The main objectives of the PMLA are as follows:

- ✓ To have a proper Customer Due Diligence (CDD) process before registering clients.
- ✓ To monitor / maintain records of all cash transactions of the value of more than Rs.10 lakh.
- ✓ To maintain records of all series of integrally connected cash transactions within one calendar month.
- ✓ To monitor and report suspicious transactions.
- ✓ To discourage and identify money laundering or terrorist financing

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activities.

- ✓ To take adequate and appropriate measures to follow the spirit of the PMLA.

GUIDELINES :

Rainbow Securities Private Limited being a SEBI registered intermediary complies with the spirit of Anti-Money Laundering provisions. To comply with the PMLA, the following three specific parameters should be observed, which are related to the overall **Client Due Diligence Process:**

- ✓ Policy for acceptance of clients;
- ✓ Procedure for identifying the clients;
- ✓ Transaction monitoring and reporting, especially Suspicious Transactions Reporting (STR).

❖ Client / Customer Due Diligence (CDD) :

For the purpose of CDD, Broker is dealing with institutional clients. According to SEBI regulation / rules Institutional clients includes:

- ✓ Banks
- ✓ Mutual Funds
- ✓ Foreign Institutional Investors (FII)
- ✓ Financial Institutions
- ✓ Insurance Companies

According to SEBI, all trades done by institutional client should be settled through Clearing House. In clearing house trade, trades are settled by Broker and custodian of the respective client. In view of above, following steps to be taken to comply with **“Customer Due Diligence”** process before registering as client:

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- ✓ Obtain basic details for the purpose of the complying with KYC norms prescribed by SEBI.
- ✓ List of Directors and authorized person to trade on behalf of client and copy of Board Resolution to that effect.
- ✓ Obtain Custodian details with whom client trade to be settled.
- ✓ Obtain Permanent Account Number (PAN).
- ✓ Obtain risk Disclosure Document duly executed by prospective client as prescribed by SEBI, before registering a client and also 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, Permanent Account Number (PAN). SEBI Registration No. etc. Obtain as many as information.

❖ **The Client / Customer Due Diligence (CDD) measures comprise the following :**

➤ **Client Information & Identity :**

Generally Institutional client are recognize at global level. We need to verify client identity and origin using internet services or any other reliable, independent source documents, data or information. After verifying information, registration form along with other supporting documents should be approved by Compliance Officer designated for verification.

➤ **Beneficial Ownership & Control :**

The “**Beneficial Owner**” is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate

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effective control over a legal person or arrangement. After completing registration process, client account should be verified by independent employee to check the actual beneficial ownership and control of the particular account. We need to obtain the details with respect to Shareholders, Promoters from the client and it has to be verified independently. In this process we should find out who is authorized to operate the client's account and who is ultimately controlling the account. Also verify the sources of funds for funding the transaction. We also have to take care at the time of settlement regarding nature of transaction, movement / source of transaction, etc. periodically ask for client's financial details to determine the genuineness of transaction.

Periodically we need to conduct 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 need to be conduct 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 funds.

Before registering client, we need to identify the following details of the prospective client:

- ✓ Ongoing due diligence and scrutiny:
- ✓ Ascertain the category of clients before registration as Client. (I.e. Individual, Corporate, Trust, FII, Mutual Fund or other).
- ✓ Obtain all necessary documents for registration (Photograph, Photo Identity, Proof of Address, copy of PAN, etc.). Documents should be verified with original and same to be counter signed by Authorized representative of the organization.
- ✓ Obtain copy of Latest Bank Statement not older than 3 months for ascertaining bank details.

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- ✓ Registration of clients to be made on physical presence of the prospective client.
- ✓ Obtain antecedent details of the prospective client.
- ✓ Ensure that new registration is to be made in clients name only.
- ✓ Ensure that account should not be opened in fictitious or *benami* name, client's occupation, sources of income.

Determine the parameter to categories of client as per risk:

- ✓ Ensure that all details of KYC form should be complete in all respect. Incomplete KYC should not be accepted by organization.
- ✓ Organization should not register client in case any kind of doubt has been raised by client (i.e. unable to submit required form/proof, any suspicious behavior noticed at the time of registration etc.)
- ✓ Account should not be opened where organization cannot apply Customer Due Diligence / KYC policies.
- ✓ The client's account should be scrutinized regularly for determining nature of transactions took place. In case of any suspicious transactions, the account should be freezer or securities / money should not be delivered to client.

1. Policy for acceptance of clients:

A) Low Risk;

B) Medium Risk;

C) And High Risk, should be classified:

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Risk Evaluation:

For the purposes of assisting the CAC in risk categorization of a prospective Client, the Authorized Representative of the Organization shall, in the process of IPV, try and understand/know the following details during the interaction with the prospective Client (if he can collect some evidence for the details, it would add further value in assessing the Client before taking him/her on board):

In case of individuals, the Authorized Representative of the Organization must ascertain the following:

- ✓ What is the occupation of the Client?

If the Client is in business, what is the pattern of his stake holding in business (single or multiples?)

- ✓ What is the primary source of Income of the Client?
- ✓ Who are the primary bankers of the Client?
- ✓ What is the Clients general reputation in the market/social status.
- ✓ Has the Client been directly or indirectly involved in any scam/criminal/anti-social activity;
- ✓ Does the Client invest in Capital Markets, if so, since how many years;

In case of non- individuals, the Authorized Representative of the Organization must ascertain the following:

- ✓ Business carried on by the entity;
- ✓ Nature of the entity;
- ✓ Annual Turnover / revenue of the entity;

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- ✓ Investments (if any) already made in the capital market;
- ✓ Identity of the stakeholders in the entity;
- ✓ Beneficial owners of the entity as prescribed by SEBI;
- ✓ Persons in actual control and management of the entity;
- ✓ What is the Clients general reputation in the market;
- ✓ Has the Client been directly or indirectly involved in any scam/criminal/anti-social activity;
- ✓ Does the Client invest in Capital Markets, if so, since how many years;
- ✓ Scope and nature of the proposed transaction, its purpose and end use and whether the proposed transaction seems unnecessarily complex or unusual;

Client Acceptance Committee (CAC)

All prospective Clients except Institutional Investors shall be accepted through the CAC approval process. Provided that, if an Institutional Investor falls into any High Risk category, (for instance, if such investor is located in a risk country) the approval of the CAC will be required.

The CAC shall be presented with all relevant information including the KYC Documents and Risk Profile Sheet and the Client will be accepted only after the CAC has approved the suitability and acceptability of the Client.

Based on the documentation submitted and the guidelines for risk categorization, the CAC will assign a risk profile to each Client (i.e. “High Risk”, “Medium Risk” and “Low Risk”).

In case of High Risk Clients, the specific approval of the Chief Principal Officer

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of Rainbow Securities Private Limited will also be required. In case of Politically Exposed Persons (i.e. 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 executives of state-owned corporations, important political party officials) the approval of the Chief Principal Officer and Directors of Rainbow Securities Private Limited will be required in addition to approval of CAC and Chief Principal Officer of Rainbow Securities Private Limited prior to accepting the Client as an enhanced due diligence measure.

RISK PROFILING OF THE CLIENT

RSPL shall accept the clients based on the risk they are likely to pose. For this purpose, RSPL shall categorize the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

Low Risk:

Low risk clients are those who are likely pose low or nil risk as per the PMLA policy. Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. They can be following:

1. Salaried Individuals.
2. Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
3. Government employees and government owned companies.
4. HNI's who have respectable social and financial payments.
5. Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
6. Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency.
7. Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

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Medium Risk:

Customers that are likely to pose medium risk to RSPL may be categorized as medium risk such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
3. Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.

High Risk :

1. Entities into foreign exchange business.
2. High Net worth individuals HNI “means who has a NW in excess of Rs.3 crores, Annual income of Rs. 1 crore and more”.
3. Trusts, charities, NGOs and organizations receiving donations,
4. Politically Exposed Persons (PEPs).
5. Those with dubious reputation as per public information available, etc.
6. Clients in high risk countries as announced by appropriate authority from time to time. LIST
7. NRI clients.

The following safeguards are to be followed while accepting the clients:

- ✓ The client account should not be opened in a fictitious / benami name or on an anonymous basis.
- ✓ Risk perception of the client need to defined having regarded to:
- ✓ Client's' location (registered office address, correspondence addresses and other addresses if applicable);

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- ✓ Nature of business activity, tracing turnover etc. and
- ✓ Manner of making payment for transactions undertaken.

The parameters of clients of special category (as given below) may be classified as higher risk and higher degree of due diligence and regular update of KYC profile should be performed.

Documentation like KYC, Broker-client agreement and Risk Disclosure Document and other information from different category of client prescribed by SEBI and any other regulatory authority to be collected depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act, 2002, guidelines issued by SEBI and other Regulatory Authority from time to time.

Ensure that a client account is not opened where the organization is unable to apply appropriate client due diligence measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the organization is suspected to be non-genuine, perceived non-co-operation of the client in providing full and complete information. Discontinue business with such person and file suspicious activity report. We can also evaluate whether there is suspicious trading in determining whether to freeze or close the account should be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, we can consult the relevant authorities in determining what action should be taken when it suspects suspicious trading.

We need to comply with adequate formalities when client is permitted to act on behalf of another person / entity. It should be clearly specified the manner in which the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. The rights and responsibilities of both the persons (i.e. the Authorized Person-client registered with Broker, as well as the person on whose behalf the authorized person is acting) should be clearly laid down. Adequate verification of a person's authority to act on behalf the customer should be carried out.

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Necessary checks and balance to be put in place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

- **For new clients :**

- ✓ Each client should be met in person (Physically or electronically), before accepting the KYC.
- ✓ Verify the PAN details on the Income Tax website.
- ✓ All documentary proofs given by the client should be verified with original documents like latest Income Tax returns, annual accounts, etc. should be obtained for ascertaining the financial status. If required, obtain additional information/document from the client to ascertain his background and financial status.
- ✓ Obtain complete information about the client and ensure that the KYC documents are properly filled up, signed and dated.
- ✓ Ensure that the details mentioned in the KYC matches with the documentary proofs provided and with the general verification done by us.
- ✓ If the client does not provide the required information, then we should not open the account of such clients.
- ✓ As far as possible, a prospective client can be accepted only if introduced by RSPL's existing client or associates or known entity. However, in case of walk-in clients, extra steps should be taken to ascertain the financial and general background of the client.
- ✓ Not open any accounts in fictitious / benami / anonymous basis.

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- ✓ Not open accounts where we are unable to apply appropriate KYC procedures.

- **For existing clients :**

- ✓ Keep updating the financial status of the client by obtaining the latest Income Tax Return, Networth Certificate, and Annual Accounts etc on an Yearly Basis.
- ✓ Update the details of the client like address, contact number, demat details, bank details etc. In case, at any point of time, we are not able to contact the client either at the address or on the phone number, contact the introducer and try to find out alternative contact details.
- ✓ Check whether the client identity matches with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any local enforcement/regulatory agency. For scrutiny / back ground check of the clients / HNI, websites such as ***www.watchoutinvestors.com*** should be referred. Also, prosecution Database /List of Vanishing Companies available on ***www.sebi.gov.in*** and RBI Defaulters Database available on ***www.cibil.com*** should be checked.
- ✓ Scrutinize minutely the records / documents pertaining to clients of special category (like Non-resident clients, High Net worth Clients, Trusts, Charities, NGOs, Companies having close family shareholding, Politically exposed persons, persons of foreign origin, Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange offerings, etc.) or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption / fraud is highly prevalent.
- ✓ Review the above details on going basis to ensure that the transactions being conducted are consistent with our knowledge of customers, its business and risk profile, taking into account, where necessary, the

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source of funds of customers.

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

As per SEBI guidelines, we may rely on the third party's report for the following purpose:

- a. For identification and verification of the identity of a client.
- b. Identification of the beneficial owner.
- c. Verification of the identity of the beneficial owner.

If such third is regulated, supervised or monitored by the SEBI or other regulator and having measure in place to verify the required compliance with regard to due diligence and sound infrastructure and resources to fulfill record keeping requirement in line with the obligations under the PML Act.

However Rainbow Securities private Limited has not outsource such activities to any third party and has decided to make customer due diligence ourselves and keep the required document/information.

• Role of Relationship Manager/Dealer/Corporate Settlement/Accounts Department

- ✓ Ensure that there is no cash receipts/payment to the client.
- ✓ Ensure that there are no third party receipts into / payment from the clients account
- ✓ Ensure that any information gathered during formal or informal conversation with clients relating to Money Laundering is passed on to

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the Principal Officer through the Branch/Department Head

EXECUTION OF DELIVERY INSTRUCTION SLIPS

• ***The DP has inbuilt system for accepting & executing Delivery Instructions as follows:***

- ✓ There is system to issue DIS booklets to BOs based only on requisition slip which forms part of the earlier issued DIS's and such requisition slip has pre-printed instruction slip serial number.
- ✓ DP is issuing only ONE DIS booklet containing not less than 10 slip for all category of account holders, at a time.
- ✓ DP is not issuing Loose DIS Slips.
- ✓ The instruction slip number is verified against the issue details at the time of receipt from BO.
- ✓ There is provision for blocking of DIS serial numbers which are already used or reported lost / misplaced and or stolen.
- ✓ DP executes instructions only on basis of duly signed instruction slips by all account holders or as per instructions registered with DP and the signatures are duly verified with our records.
- ✓ DP verified corrections / cancellations on the instruction slips, if any, and whether authenticated / signed by all account holders or registered signatories.
- ✓ There is a system in place to prevent MULTIPLE EXECUTION OF SAME NUMBERED INSTRUCTION the daily report with respect to HIGH VALUE Transactions (including null report) being generated by CDAS is verified by Senior Official of DP and Principal Officer of Company.
- ✓ DP has systems and procedures to DOUBLE CHECK transactions originating from DORMANT ACCOUNTS , (an if any found then processing of the same is done with extra care, like verifying with the

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client either email/phone /fax and if required to obtain a confirmation for the same , of having issuing a instruction slip). In case of off-market transactions, confirmation is sought from the clients regarding the instructions sent by him and the reasons for such transfers. The details of the same have to recorded in the Inward register which contains Off-market, Inter-DP, Early Pay-in details with remarks if any. In addition, we write the confirmation/ communication with the client details and the reason for such transfer on the reverse of DIS in case of off market/dormant and high value instruction slips, which are as follows:

Reasons;

Person spoken (authorized person);

Date;

Contact details

4. Acceptance of clients through Risk-Based Approach:

The clients may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. We should apply each of the clients due diligence measures on a risk sensitive basis. We should adopt an enhanced customer due diligence process for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, we should obtain type and amount of identification information and documents necessarily dependent on the risk category of a particular customer.

5. Clients of special category (CSC):

CSC clients include the following:

- ✓ Non-resident clients (NRI);
- ✓ High Net worth clients (HNI) (HNI “means who has a NW in excess of Rs.3 crores, Annual income of Rs. 1 crore and more”)
- ✓ Trust, Charities, NGOs and organizations receiving donations.

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- ✓ Politically exposed persons (PEP) of foreign origin.
- ✓ Current /Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, close advisors and companies in which such individuals have interest or significant influence);
- ✓ Companies offering foreign exchange offerings;
- ✓ Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy. Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following -- Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent;
- ✓ Non-face to face clients;
- ✓ Clients with dubious reputation as per public information available etc.;
- ✓ The above mentioned list is only illustrative and we should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

7. Client identification procedure (CIP).

Identity generally means a set of attributes which together uniquely identify a natural or legal person. An individual's identity comprises his/her name recent photograph, signature, date of birth and the residential address at which he/she can be located. In case of a non-individual, identity comprises of the incorporation or constitution documents of the entity, the persons controlling the entity and Beneficial Owners thereof as prescribed by SEBI from time to time.

Rainbow Securities Private Limited shall then carry out the requisite KYC procedures at different stages- while establishing the intermediary-Client relationship, while carrying out transactions for the Client or when RSPL has reservations or suspicions regarding the veracity or the adequacy of previously obtained Client identification data.

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CIN : U67120WB1994PTC065293

The CDD measures to be undertaken by RSPL comprise the following:

- ✓ Obtaining sufficient information in order to identify the Beneficial Owners of a securities account as per SEBI requirements. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the Client, that party should be identified using Client identification and verification procedures.
- ✓ Verifying the Client's identity using reliable, independent source documents, data or information;
- ✓ 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 as prescribed by SEBI; corroborating the information provided in relation to (c); and
- ✓ Conducting ongoing due diligence and scrutiny, i.e. performing ongoing scrutiny of the transactions and the Client's account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the RSPL's knowledge of the Client, its business and risk profile, taking into account, where necessary, the Client's source of funds.
- ✓ The level, standards and frequency of scrutiny of transactions conducted by high-risk Clients shall be higher than low-risk Clients and employees must be cautious and diligent in relation to transactions undertaken by high-risk Clients.
- ✓ The Client Identification Procedure as set out above shall be followed for each Client, irrespective of the amount of investment and shall not be waived for any Client or category thereof.

The following are other general guidelines that employees must bear in mind:

- ✓ No account shall be opened in a fictitious / benami name or on an anonymous basis.

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Contact : ☎ 033-22135183/84 ✉ info@rainbowindia.co.in

CIN : U67120WB1994PTC065293

- ✓ An account shall not be opened where RSPL is unable to apply appropriate CDD measures and KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the Client, information provided to RSPL is suspected to be non genuine, perceived non co-operation of the Client in providing full and complete information.

In cases of the kind specified above, RSPL shall take the Steps like:-

Necessary checks and balances to be put into place before opening an account so as to ensure that the identity of the Client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

The Client Identification Procedure as set out in this Policy and the Policy shall be complied with irrespective of the amount of investment made by Clients.

(V) In Person Verification (IPV)

- ✓ Once the background screening is complete or simultaneously therewith, the team shall conduct an IPV of the prospective Client. IPV of the Client by a RSPL employee is mandatory and shall not at any time be outsourced.
- ✓ The employee visiting the Client for IPV must verify the originals of the photocopy documents submitted by the Client as part of KYC documentation.
- ✓ The Employee doing IPV Electronically, at that point of Time the others Documents submitted by Clients will be verified Online (Regulatory Sites).
- ✓ IPV must be conducted at the time of registering the Client under the KYC norms. RSPL must be able to satisfactorily identify the Client and must be able to provide Client details to the authorities as and when required.

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- ✓ In case of DP Clients, RSPL employee shall conduct an IPV of the prospective Client. IPV of the Client by a RSPL employee is mandatory and shall not at any time be outsourced.
- ✓ IPV done for opening Beneficial Owner account by the DP arm of RSPL shall hold good for opening trading account for the same Client by the stock broking arm of RSPL and vice versa.
- ✓ In the case of its DP activities, RSPL must also carry out IPV of Beneficial Owners at the time of opening the DP Account.
- ✓ If the Client acceptance process rejects a Client or the Client does not respond to requests for additional information/documents, all documents collected from the Client may be refunded and a clause to this effect be incorporated in the KYC Form.

8. Record Keeping:

- ✓ 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, Cheque, etc;
- ✓ The identity of the person undertaking the transaction;
- ✓ The destination of the funds;
- ✓ The form of instruction and authority.

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

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CIN : U67120WB1994PTC065293

9. Retention of Records:

- ✓ The following document retention terms should be observed:
- ✓ All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of Five years (5) from the date of cessation of the transaction.
- ✓ Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the Five years from the date of cessation of the transaction.
- ✓ Records shall be maintained in hard and soft copies.
- ✓ The following document retention terms should be observed:
- ✓ All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of Five years (5) from the date of cessation of the transaction.
- ✓ However, it should be ensured that there is continuity in dealing with the client as normal until told other wise and the client should not be told of the report /suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions

9. Suspicious transactions Monitoring and Reporting :

Rainbow Securities Private Limited, on an on-going basis, should monitor the transactions executed by the client in order to ascertain whether the same is „suspicious“ which should be reported to FIU, India. Following are the Surveillance/ Alerts, based on the client’s transactions on NSE/BSE/DP and circumstances, which may be in the nature of suspicious transactions.

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- ✓ Suspicious Transactions are those which:
- ✓ Give rise to reasonable grounds of suspicion that it may involve proceeds of crime;
- ✓ Appears to be made in circumstances of unusual or unjustified complexity;
- ✓ Appears to have no economic rationale or bonafide purpose;

10. CRITERIA FOR ASCERTAINING SUSPICIOUS TRANSACTIONS

- ✓ Whether a particular transaction is suspicious or not will depend upon the Client's background, details of the transactions, / Identity & Receipt / Payment pattern and other facts and circumstances.
- ✓ Clients whose identity verification is difficult which includes non-cooperation of the client also.
- ✓ Clients belonging to (or) introduced by persons/entities in high risk countries
- ✓ Increase in clients business without justification and Turnover not commensurate with financials;
- ✓ Overseas receipts/payments of funds with or without instructions to pay in cash transaction transfer of proceeds to unrelated parties
- ✓ Negotiated trades / matched trades.
- ✓ Relation of the client with the company / directors / promoters
- ✓ Unusually large transactions like, clients having traded in scrip/shares of a company over a threshold Quantity /value in a single day and volume in that scrip of that client is above a threshold percentage of the total volume in that scrip of the Exchange.

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- ✓ Clients making huge and regular losses and are still placing trades/orders and further identifying the sources of funds in such cases.
- ✓ Large volume in proprietary account of Sub-Brokers/Affiliates/Dealer Asset management services for Clients where the source of the funds is not clear or not in keeping with Clients apparent standing /business activity; Clients based in high risk jurisdictions;
- ✓ Unusual transactions undertaken by **“Client of special category (CSCs)”**, offshore banks/financial services, businesses reported to be in the nature of export import of small items

11. Alerts generated by CDSL based on transactions in Depository Accounts

- ✓ Debit and Credit transactions due to Off-market or Inter-depository transfers, above a threshold quantity, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
- ✓ Details of debit and credit transactions due to demat, remat and pledge above a threshold quantity / value, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
- ✓ Details of debit and credit transactions above a threshold quantity/value whichever is smaller, in an ISIN, which exceed a threshold multiple of the average size of the transaction calculated for the previous months□ transactions.
- ✓ Details of Off-market transactions (within CDSL or Inter-depository) where there are more than a threshold number of transactions in an account, for the past fortnight.
- ✓ Any debit transaction in a dormant account for exceeding a threshold quantity/value whichever is smaller, will be reported as an alert. An

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account having no Debit Transaction in the last 1 year will be considered as “Dormant” account for this purpose.

Further the Compliance Department should randomly examine select transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

12. Verification of Clients with Dubious Reputation

- ✓ For verifying the dubious/suspicious reputation, of people, we regularly receive STR Files from CDSL and appropriate actions are taken against each STR, if any. So adequate care is taken by CDSL also for the DP entries affected on behalf of clients by us.
- ✓ We are also regularly logging on to www.watchoutinvestors.com / NSE / BSE and any other possible sources to get information on any dubious or debarred or suspicious people.
- ✓ Any suspicion transaction needs to be notified immediately to the **“Designated Principal Officer”**. The notification may be done in the form of a detailed report with specific reference to the client's transactions and the nature / reason of suspicion may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

Handling of Clients’ Securities by Trading Members/Clearing Members:

Rainbow Securities Pvt Ltd, hereby want to inform you that SEBI has outcome with an important Circular on 20th June, 2019 vide Circular No: CIR/HO/MIRSD/DOP/CIR/P/2019/75, regarding Handling of Clients’ Securities by Trading Members/Clearing Members.

The Synopsis of the SEBI Circular on Handling of Clients’ Securities by Trading Members/Clearing Members are as detailed below:

- 1) **The securities kept in “Client Unpaid Securities Account”** shall either be transferred to client demat account upon fulfilment of client’s obligation or it should be disposed off in the market by the member within T+5 days reckoned from the settlement date.

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CIN : U67120WB1994PTC065293

- 2) **Client Securities already pledged shall either be unpledged and returned to the clients upon fulfilment of pay in obligation by 31.08.2019** or disposed off after giving notice of 5 days to the client.
- 3) **Where the client has not paid for the securities purchased in full (unpaid securities)** should be transferred to a separate client account titled as “Client Unpaid Securities Account”. Such account is to be opened latest by 31.08.2019 and intimated to the exchange in specified format.
- 4) **Client securities should not be kept in “Client Unpaid Securities Account”** beyond seven trading days from the date of settlement. In case of non-transfer of securities penalties will be levied by the depositories.
- 5) **Securities purchased under Margin Trading Facility**, has to be kept in a separate account titled as “Client Margin Trading Securities Account”.
- 6) **Client securities received as collateral** shall be used only for meeting the respective client’s margin requirement by way of depositing the same with Stock Exchange/Clearing Corporation/ Clearing House.
- 7) **Client Securities lying in “Client Collateral Account”, “Client Margin Trading Securities Account”, and “Client Unpaid Securities Account”** cannot be pledged to the Banks/ NBFC for raising funds.
- 8) All existing client securities account opened by the member other than the below mentioned needs to be closed on or before 31.08.2019 and reported to the exchange in specified format.
 - i) Pool Account (including early pay in Account)
 - ii) Client Margin Trading Securities Account
 - iii) Client Collateral Account.
- 9) **Interest charged on debit balance (Delay Payment Charges) will be 18% p.a. on Fortnight basis.**

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CIN : U67120WB1994PTC065293

Further on special Circumstances, Rainbow Can/will Direct Transferred the Securities to Client Demat Account rather than CUSA A/c, in the following Circumstances – If our RMS System allow the same and if the Client is POA Client.

In accordance with “Designated Principal Officer” for Compliance with the provisions of “Prevention of Money Laundering Act, 2002 (PMLA)”:

11. Employees’ Hiring/Employee’s Training/ Investor Education:

1. Hiring of Employees:

- ✓ We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the Principal Officer. We will also review the AML performance of supervisors,
- ✓ We shall have adequate screening procedures in place to ensure high standards when hiring employees, having regard to the risk of money laundering and terrorist financing and the size of the business, we ensure that all the employees taking up such key positions are suitable and competent to perform their duties.

2. Employees’ Training:

- ✓ We have an ongoing employee training program conducted by our Principal Officer and Senior Management, Participation of all the Key Employees in the Seminars conducted by various Regulatory bodies from time to time, so that the members of the staff are adequately trained in AML and CFT procedures.
- ✓ All the Circulars issued by various Regulatory bodies including that of PMLA, are circulated to all the staff Members and the same are also being discussed in length, in the Training Program. Training program shall have special emphasis on frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the

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rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements. Our training will include, at a minimum: how to identify red flags and signs of money laundering that arises during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

3. Procedure for Freezing of Funds, Financial Assets or Economic Resources or Related Services:

Due care will be taken to ensure expeditious adherence of the orders if any issued time to time Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA).

a. Maintain and update designated lists of individuals / entities subject to UN sanction measures in electronic form and run a check on the given parameters 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 or related services held in the form of securities with them.

b. In the event, particulars of any of customer/s match the particulars of designated individuals/entities, we shall immediately, within 24 hours from the time of finding out such customer, inform full particulars of the funds, securities, transactions or economic resources or related services

4. Freezing of financial assets under UAPA:

- i. On receipt of the particulars as mentioned in paragraph above, ISI Division of MHA would cause a verification to be conducted by the State Police and /or the Central Agencies so as to ensure that the individuals/ entities identified by the stock exchanges, depositories, registered intermediaries are the ones listed as designated individuals/entities and the funds, financial assets or economic

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resources or related services, reported by stock exchanges, depositories, registered intermediaries are held by the designated individuals/entities. This verification would be completed within a period not exceeding 5 working days from the date of receipt of such particulars.

- ii. In case, the results of the verification indicate that the properties are owned by or held for the benefit of the designated individuals/entities, an order to freeze these assets under section 51A of the UAPA would be issued within 24 hours of such verification and conveyed electronically to the concerned depository under intimation to SEBI and FIU-IND.
- iii. The order shall take place without prior notice to the designated individuals/entities.

5. Procedure for unfreezing of funds, financial assets or economic resources or related services of individuals/entities inadvertently affected by the freezing mechanism upon verification that the person or entity is not a designated person:

Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the concerned stock exchanges/depositories and registered intermediaries. The stock exchanges/depositories and registered intermediaries shall inform and forward a copy of the application together with full details of the asset frozen given by any individual or entity informing of the funds, financial assets or economic resources or related services have been frozen inadvertently, to the nodal officer of IS-I Division of MHA as per the contact details given in paragraph 5(ii) above within two working days. The Joint Secretary (IS-I), MHA, being the nodal officer for (IS-I) Division of MHA, shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within fifteen working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the concerned stock exchanges, depositories and registered intermediaries. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of IS-I Division shall inform

Rainbow Securities Private Limited

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CIN : U67120WB1994PTC065293

the applicant.

6. Investors Education:

- ✓ As the implementation of AML / CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has hitherto never been called for, which information include documents evidencing source of funds / income tax returns / bank records etc. and can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize the clients about these requirements, as the ones emanating from AML and CFT framework. We shall circulate the PMLA Circulars and other specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT program. The same shall also be emphasized on, in the Investor Awareness Programme conducted by us at frequent intervals of time. The importance of the same is also made known to them at the time of opening the Account

7. Monitoring Employee Conduct and Accounts:

- ✓ As a part of their annual performance review, The Principal Officer's accounts will be reviewed by the Board of Directors.

8. Confidential Reporting of AML Non-Compliance:

- ✓ Employees will report any violations of the company's AML compliance program to the Principal Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to the Chairman of the Board. Such reports will be confidential, and the employee will suffer no retaliation for making them. The testing of our AML program will be performed by the senior Management of the company. Evaluation and Reporting: After we have completed the testing, the Internal Auditors will report their findings to The Board of Directors. Each of the resulting recommendations will be address by us.

9. Program to Test AML Program: Board of Directors Approval:

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CIN : U67120WB1994PTC065293

- ✓ We have approved this AML program as reasonably designed to achieve and monitor our firm's ongoing compliance with the requirements of the PMLA and the implementing regulations under it. All STRs will be reported quarterly to the Board of Directors, with a clear reminder of the need to maintain the confidentiality of the STRs.

Details of Principal Officer and Designated Director:

Principal Officer

Mr. Rajendra Bhutra

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Designated Director

Mr. Uma Shankar Bihani

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