

CLIENT DUE DILIGENCE POLICY OF INDO THAI SECURITIES LIMITED

➤ INTRODUCTION

This Policy is made in compliance with the SEBI circular no. CIR/MIRSD/2/2013 dated 24th January, 2013 in connection with Client Due Diligence Policy by SEBI Registered Market Intermediaries to assist reporting entities in meeting the requirement to perform customer due diligence on the customer and beneficial owners of the customer under sections 11-26 of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 ("the Act").

A key task is to identify and verify our customers' beneficial ownership arrangements. It is crucial to know who the beneficial owner(s) are so that we can make appropriate decisions about the level of money laundering and terrorist financing risk associated with our customer. Sometimes identifying and verifying who the customers' beneficial owner(s) are can be difficult to do. This could be because the ownership structure is complex but legitimate. However, it is necessary to remain alert to the possibility that it may be because there is an attempt to conceal the beneficial owner(s).

Acting on behalf of a customer is not part of the beneficial ownership definition. However, the Act requires reporting entities to also identify and verify those persons. Information on acting on behalf is included to help reporting entities understand the distinction between a beneficial owner and a person acting on behalf of a customer.

Generally, simplified customer due diligence relates to customers that are already subject to transparency and public disclosure. We are aware that simplified customer due diligence, which in effect means there is no requirement to check beneficial ownership, applies to the limited circumstances specified in the Act.

➤ WHAT IS A BENEFICIAL OWNER

The definition of beneficial owner in section 5 of the Act is as follows:

Beneficial owner means the individual who –

- a) Has effective control of a customer or person on whose behalf a transaction is conducted; or
- b) Owns a prescribed threshold of the customer or person on whose behalf a transaction is conducted.

Our obligation is to determine the individual(s) who are the beneficial owner(s). A beneficial owner is an individual (a natural person). Therefore the beneficial owner can only be an individual, not a company or organisation. There may be more than one beneficial owner associated with your customer. Our task is to identify and verify the identity of all the beneficial owners of your customer.

If the customer is an individual, section 11(2) of the Act allows you to treat that person as the beneficial owner unless there are reasonable grounds to make you suspect that they are acting on behalf of another. If the customer is acting on behalf of another person, we will need to establish that person's identity, the beneficial ownership of the customer and any other beneficial owners.

➤ **THE TEST TO IDENTIFY BENEFICIAL OWNERSHIP**

Each time we apply the test of beneficial ownership to a customer by applying three elements. These elements are:

- a) who owns more than 25 percent of the customer
- b) who has effective control of the customer
- c) the persons on whose behalf a transaction is conducted

A beneficial owner is an individual who satisfies any one element, or any combination of the three elements.

We determine who owns more than 25 percent of the customer and who has effective control of the customer, and also those persons on whose behalf a transaction is conducted. The beneficial owner(s) of customer satisfies one or more of the three elements.

There may be individuals who have effective control over the customer, but do not have an ownership interest and are not a person on whose behalf a transaction is conducted; they will be beneficial owners. Effective control, ownership and persons on whose behalf a transaction is conducted are not mutually exclusive.

If we want to do business with a customer, we identify and verify the identity of the beneficial owner(s). We establish the customer's ownership structure and understand the ownership at each



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layer. The beneficial owner is not necessarily one individual; there may be several beneficial owners in a structure. When there are complex ownership layers and no reasonable explanation for them than we consider the possibility that the structure is being used to hide the beneficial owner(s).

Where information are not readily available and quickly provided by our customer our company inquire further into a complex ownership or control structure. We choose to stop at any point in the process, or may find that the information is unobtainable. However, if we do not identify and verify the identity of the beneficial owner(s), full customer due diligence has not been completed and we will not establish a business relationship or conduct an occasional transaction for the customer.

Once we have identified the beneficial owners we have to verify the identity information. We apply a risk-based approach to verification.

➤ OWNERSHIP

For the purpose of this guideline, the prescribed threshold should be interpreted as owns more than 25 percent of the customer.

We will need to understand the ownership structure of our customer. We consider that it is possible for ownership to be split into parcels of 25 percent or less, but relationships between the parties may give an individual aggregated ownership of the customer that amounts to more than 25 percent.

For some customers, when we have applied the beneficial ownership test it will become clear that ownership is spread over a large number of individuals with no individual owning more than 25 percent.

➤ EFFECTIVE CONTROL

Effective control of a customer is part of the beneficial ownership definition. An example is an individual who exercises responsibility for senior management decisions, or similar, of the customer.



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Understanding the management and governance structure of our customer will assist to establish those persons with effective control of the customer. In deciding the effective controller(s) in relation to a customer who is not an individual, we consider:

- those individuals with the ability to control the customer and/or dismiss or appoint those in senior management positions
- those individuals holding more than 25 percent of the customer's voting rights
- those individuals (for example, the CEO) who hold senior management positions
- trustees (where applicable).

We consider the customer's management and governance structure and decide who has effective control of the customer.

➤ PERSON ON WHOSE BEHALF A TRANSACTION IS CONDUCTED

Another part of the definition of beneficial owner is a person on whose behalf a transaction is conducted. This may be the individual who is an underlying client of our customer. This concept is important when considering the relationship between managing intermediaries and their underlying clients. There are various scenarios, many of which are complicated. A fact sheet will address this and provide more detail on managing intermediaries.

➤ ACTING ON BEHALF OF A CUSTOMER

This is not part of beneficial ownership; it is part of the customer due diligence obligations under the Act. There are instances where persons are acting on behalf of a customer, but are not necessarily beneficial owners of that customer.

Acting on behalf of the customer is when a person is authorised to carry out transactions or other activities on behalf of the customer. 'Authority to act' should not be confused with effective control. Sections 16(1)(c) and 20(1) of the Act refer to acting on behalf of the customer. The Act requires us to identify and verify any person who has authority to act on behalf of a customer.

In some instances, funds from an unidentified third party entering and then exiting an account may be reasonable grounds to suspect that a customer is acting on behalf of another.



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We ask questions where we suspect the customer is acting on behalf of another. Suspicion emerge when we initially engage with the individual or it can become apparent over time.

➤ **APPLYING A RISK-BASED APPROACH**

The Act allows us to adopt a risk-based approach to verify beneficial ownership of a customer. Identifying beneficial ownership of a customer is an obligation that must be satisfied, regardless of the level of risk associated with that customer. However, when deciding what reasonable steps to take to satisfy that the customer's identity and information is correct, our approach depends on the risk assessment of the customer. The process for assessing customer risk and deciding how to identify and verify beneficial ownership is based on AML/CFT risk assessment.

Where there are reasonable grounds for suspicion of money laundering or terrorist financing, we apply enhanced customer due diligence and make a suspicious transaction report to the Financial Intelligence Unit (FIU).

A risk-based approach allows some flexibility in our obligation to use data, documents or information obtained from a reliable and independent source to verify the identity of the beneficial owner(s) of our customer. This is applicable depending upon the case.

Our risk assessment set out steps to verify different types of customers. For example, a well known local family business wants to become our customer. We first identify both the customer and the beneficial owner(s) and obtain standard identity documentation. Our risk assessment may lead us to treat this customer as lower risk. We may decide that a check in the local business directories, combined with our local knowledge, is reasonable steps. If the customer is higher risk, we may apply enhanced customer due diligence, in which case we obtain information relating to the source of funds or wealth of the customer (section 23 of the Act). Verification of the identity of the beneficial owner(s) is the last step in the process. To verify the beneficial owner(s) we obtain appropriate documentation and satisfy our self that to know who the beneficial owner is (sections 13, 16 and 24 of the Act).

We ensure that we make consistent decisions about beneficial ownership identification. This process is in line with our risk assessment. If the customer is associated with higher risk factors, internal controls in our AML/CFT programme set out when to escalate decisions to a higher level.