

Sub: Summary of Order-in -Original No. 12/DIR/FIU-IND/2022 dated 21.10.2022 in the matter of Kotak Securities Limited – reg.

As part of its supervisory functions under Chapter IV of the Prevention of Money Laundering Act, 2002 (PMLA), FIU-IND regularly monitors enforcement and regulatory actions taken by financial sector regulators. Such monitoring is carried out with a two-fold purpose. First, such cases are considered from the perspective of dissemination to law enforcement agencies for further action in accordance with law. Second, such cases are considered with a view towards examining if the entities in question properly implemented the requisite standard of transaction monitoring and due diligence safeguards from an AML / CFT perspective. Specifically, this examines whether a Reporting Entity missed any prior opportunity to detect and report illicit activities prior to their consummation. Such an approach maximises the possibility that criminal activities which utilise financial channels will be detected before the public or other stakeholders are harmed.

In the present instance, interim ex parte order of SEBI with no. WTM/SM/ISD/13379/2021-22 in the matter of Magma Fincorp Limited (now known as Poonawalla Fincorp Limited) dated 15.09.2021 came to the attention of FIU-IND. In order to examine whether there was any non-compliance by any Reporting Entity with respect to obligations under Chapter IV of PMLA, the case was taken up for further analysis.

After examining the material on record and the submissions made, Kotak Securities was found to have breached the relevant obligations in respect of its:

- (i) Failure to properly investigate the alerts and take further action as required by law where income details of the client were at substantial variance with trading values / volumes;
- (ii) Failure to properly raise an alert and consider an adverse order of SEBI from the perspective of transactional monitoring and reporting obligations.

In view of the same, Kotak Securities Limited was warned to carefully implement its obligations under the PMLA and PML Rules going forward. Further, in addition, due to the deficiencies observed in the mechanism implemented by the entity, it was found appropriate to issue detailed directions to the entity under section 13(2)(a) and 13(2)(b). Kotak Securities Limited was further required to return, within a period of 30 days, a certification under signature of its Designated Director and Principal Officer that the directed measures would be implemented within the periods prescribed.

Disclaimer: The summary of the instant order is only representational in nature and does not hold any legal significance and cannot be relied upon or referred to as a precedence in any other case.