



Karvy Financial Services Limited

Know Your Customer Policy

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'KNOW YOUR CUSTOMER' (KYC) NORMS/ ANTI MONEY LAUNDERING ("AML") STANDARDS/COMBATING OF FINANCING OF TERRORISM (CFT)

Background: The Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. The Reserve Bank of India (RBI) has issued revised set of comprehensive 'Know Your Customer' Guidelines to all Non-Banking Financial Companies (NBFCs) in the context of the recommendations made by the Financial Action Task Force(FATF) and Anti Money Laundering (AML) standards and combating financing of terrorism policies by the regulatory authorities and advised all NBFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures are formulated and put in place with the approval of their respective Boards. The 'Know Your Customer' Guidelines issued by KFSL have been drafted and issued in the above context.

1 Know Your Customer' Standards

The objective of KYC guidelines is to prevent Karvy Financial Services Limited ("KFSL"/ "Karvy Finance"/ "the company") from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable KFSL to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. KFSL has framed its KYC policy incorporating the following elements:

- Customer Acceptance Policy;
- Customer Identification Procedures;
- Customer Due Diligence Procedures
- Monitoring of Transactions; and
- Risk management

For the purpose of the KYC policy,

I. Customer' is defined as:

- a person or entity that maintains an account and/or has a business relationship with KFSL;
- one on whose behalf the account is maintained (i.e. the beneficial owner);
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and

II. Beneficial Owner (BO) is defined as:

- a. Where the **customer 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/have a controlling ownership interest or who exercise control through other means.

Explanation- For the purpose of this sub-clause-

1. "Controlling ownership interest" means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.
 2. "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 **customer 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/have ownership of/entitlement to more than 15 per cent of capital or profits of the partnership.
- c. Where the **customer 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/have ownership of/entitlement to more than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals.

Explanation: Term 'body of individuals' includes societies. Where no natural person is identified under (a), (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official.

- d. Where the **customer is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% 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.

1.1 Customer Acceptance Policy (CAP)

KFSL's Customer Acceptance Policy, which lays down explicit criteria for acceptance of customers, ensures the following aspects of the customer relationship:

- No account is opened in anonymous or fictitious/benami name(s);
- KFSL will not open an account where it is unable to apply appropriate customer due diligence measures, i.e. where KFSL is unable to verify the identity and /or obtain documents required due to non co - operation of the customer or non-reliability of the data/information furnished.
- No transaction or account based relationship is undertaken without following the CDD procedure.
- The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- Optional'/additional information is obtained with the explicit consent of the customer after the account is opened.
- CDD Procedure is followed for all the joint account holders, while opening a joint account.
- Circumstances, in which a customer is permitted to act on behalf of another person/entity, will be clearly spelt out in conformity with the established law and practices, as there could be

occasions when an account is operated by a mandate holder or where an account may be opened by an intermediary in a fiduciary capacity, and

- Necessary checks before opening a new account 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, etc.

1.2 Customer Identification Procedure (CIP)

I. The Board of KFSL has clearly spelt the Customer Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when KFSL has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. KFSL will 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 the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, which will be most of its clients, KFSL will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities KFSL will:

- verify the legal status of the legal person/ entity through proper and relevant documents
- verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person and
- understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person

A list of the nature and type of documents/information for customer identification is given in the Annex - 1

- II. While undertaking customer identification, KFSL shall ensure that :
- a. Decision-making functions of determining compliance with KYC norms shall not be outsourced.
 - b. Introduction shall not be sought while opening accounts.
 - c. The customers shall not be required to furnish an additional OVD, if the OVD submitted by the customer for KYC contains both proof of identity and proof of address.
 - d. A customer shall not be required to furnish separate proof of current address, if it is different from the address recorded in the OVD. In such cases, the RE shall merely obtain a declaration from the customer indicating the address to which all correspondence will be made.
 - e. The local address for correspondence, for which their proof of address is not available, shall be verified through 'positive confirmation' such as acknowledgment of receipt of letter, cheque books, ATM cards, telephonic conversation, visits to the place, or the like.

- f. In case it is observed that the address mentioned as per 'proof of address' has undergone a change, KFSL shall ensure that fresh proof of address is obtained within a period of six months

1.4 Customer Due Diligence (CDD) Procedure

I. CDD Procedure in case of Individuals

KFSL shall obtain the following documents from an individual while establishing an account based relationship:

- a. one certified copy of an OVD as mentioned at Annexure- I for identity and address;
- b. one recent photograph; and
- c. documents pertaining to the nature of business or financial status

Provided that information collected from customers for the purpose of opening of account shall be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer. Explanation: Customers, at their option, shall submit one of the six OVDs for proof of identity and proof of address.

II. CDD Measures for Sole Proprietary firms: Refer Annexure 1

In cases where it is satisfied that it is not possible to furnish two documents as per Annexure 1, only one of those documents as proof of business/activity can be accepted with contact point verification, personal discussions and collect such other information and clarification as would be required to establish the existence of such firm, and shall confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern

III. CDD Measures for Legal Entities: Refer Annexure 1

IV. Identification of Beneficial Owner

For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps in terms of Rule 9(3) of the Rules to verify his/her identity shall be undertaken keeping in view the following:

- a. Where the customer or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.
- b. In cases of trust/nominee or fiduciary accounts whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary is determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.

1.5 Monitoring of Transactions

Ongoing monitoring is an essential element of effective KYC procedures. KFSL can effectively control and reduce its risk only if it has an understanding of the normal and reasonable activity of the customer so that it can identify transactions that fall outside the regular pattern. However, the extent of monitoring will depend on the risk sensitivity of the account. Since KFSL will not have any deposit accounts, this situation will hardly arise, but KFSL will in any case pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose or transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer. KFSL will put in place a system of periodical review of accounts and the need for applying enhanced due diligence measures. KFSL will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002. It will also ensure that transactions of suspicious nature and/or any other type of transaction notified under section 12 of the PML Act, 2002, is reported to the appropriate law enforcement authority.

1.6 Risk Management

The Board of Directors of KFSL has ensured that an effective KYC program is in place and has established appropriate procedures and is overseeing its effective implementation. The program covers proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility has been explicitly allocated within KFSL to ensure that KFSL's policies and procedures are implemented effectively.

KFSL's internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. The compliance function will provide an independent evaluation of KFSL's policies and procedures and comment on the lapses observed in this regard. The compliance in this regard will be put up before the Risk Committee at quarterly intervals.

1.7 Customer Education

KFSLs will have an ongoing employee training program so that members of the staff are adequately trained in KYC procedures. Training requirements will have different focuses for frontline staff, compliance staff and staff dealing with new customers.

2 Officially valid document (OVD)

OVD means the passport, the driving license, the Permanent Account Number (PAN) Card, the Voter's Identity the State Government, letter issued by the Unique Identification Authority of India containing details of name, Card issued by the Election Commission of India, job card issued by NREGA duly signed by an officer of address and Aadhaar number, or any other document as notified by the Central Government in consultation with the Regulator.

- i. Provided that where 'simplified measures' are applied for verifying the identity of the clients the following documents shall be deemed to be OVD:
 - a. identity card with applicant's Photograph issued by Central/ State Government Departments, Statutory/ Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks and Public Financial Institutions;
 - b. Letter issued by a gazetted officer, with a duly attested photograph of the person.

- ii. Provided further that where 'simplified measures' are applied for verifying for the limited purpose of proof of address, the following additional documents are deemed to be OVDs :
 - a. Utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
 - b. Property or Municipal Tax receipt;
 - c. Bank account or Post Office savings bank account statement;
 - d. Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
 - e. 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; and
 - f. Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.

3.1 Simplified Measures for Proof of Identity:

If an individual customer does not have any of the OVDs (as mentioned in the above paragraph) as proof of identity, then KFSL will adopt 'Simplified Measures' in respect of 'Low risk' customers, taking into consideration the type of customer, business relationship, nature and value of transactions based on the overall money laundering and terrorist financing risks involved. Accordingly, in respect of low risk category customers, where simplified measures are applied, it would be sufficient to obtain a certified copy of any one of the documents referred to at proviso to paragraph 2 (i) above., which shall be deemed as an OVD for the purpose of proof of identity.

3.2 Simplified Measures for Proof of Address:

The additional documents mentioned at 2 (ii) above shall be deemed to be OVDs under 'simplified measure' for the 'low risk' customers for the limited purpose of proof of address where customers are unable to produce any OVD for the same.

4 Annexure 1 - Customer Identification Procedure

Features to be verified and documents that may be obtained from customers

Customers/Clients	Documents (Certified copy of the following OVDs)
<p>Accounts of individuals</p> <ul style="list-style-type: none"> - Proof of Identity and Address 	<p>Any one document from the Officially Valid Document is only allowed. They are:</p> <p>(i) Passport (ii) PAN card (iii) Voter's Identity Card issued by Election Commission (iv) Driving License (v) Job Card issued by NREGA duly signed by an officer of the State Govt (vi) The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number.</p> <p>Where 'simplified measures' are applied for verifying the identity of customers the following documents shall be deemed to be 'officially valid documents':</p> <ol style="list-style-type: none"> 1. identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions; 2. letter issued by a gazetted officer, with a duly attested photograph of the person. Where 'simplified measures' are applied for verifying for the limited purpose of proof of address the following additional documents are deemed to be OVDs : <ol style="list-style-type: none"> a) Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill); b) Property or Municipal Tax receipt; c) Bank account or Post Office savings bank account statement; d) Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;

	<p>e) 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; and Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India</p>
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Customers/Clients	Documents
Accounts of Companies	<ol style="list-style-type: none"> 1. Certificate of incorporation; 2. Memorandum and Articles of Association; 3. A resolution from the Board of Directors and power of attorney granted to managers, officers or employees to transact on its behalf; and 4. An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.
Accounts of Partnership Firms	<ol style="list-style-type: none"> 1. Registration certificate; 2. Partnership deed; and 3. An officially valid document in respect of the person holding an attorney to transact on its behalf
Accounts of unincorporated association or a body of individuals including societies	<ol style="list-style-type: none"> 1. Resolution of the managing body of such association or body of individuals; 2. Power of attorney granted to him to transact on its behalf; 3. An officially valid document in respect of the person holding an attorney to transact on its behalf; and <p>Such information as may be required by KFSL to collectively establish the legal existence of such an association or body of individuals.</p>
Accounts of Proprietorship Concerns	<ol style="list-style-type: none"> 1. Certified copy of an OVD containing details of identity and address of the individual (proprietor) shall be obtained. 2. In addition to the above, any two of the following documents as a proof of business/

activity in the name of the proprietary firm shall also be obtained:

- a. Registration certificate
- b. Certificate/license issued by the municipal authorities under Shop and Establishment Act.
- c. Sales and income tax returns.
- d. GST certificate.
- e. Certificate/registration document issued by GST/Professional Tax authorities.
- f. IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT/License/certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
- g. Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax authorities.
- h. Utility bills such as electricity, water, and landline telephone bills which is not more than two months old, of any service provider