

Karvy Financial Services Limited

PMLA Policy

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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. Combating financing of Terrorism - Specially Designated Nationals (SDN)

- a. In terms of PMLA Rules, suspicious transaction should include inter alia transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism. NBFCs were, therefore, advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links and swift identification of the transactions and making suitable reports to the Financial Intelligence Unit – India (FIU-IND) on priority.
- b. As and when list of individuals and entities, approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs), are received from Government of India, Reserve Bank circulates these to all banks and financial institutions (including NBFCs). NBFCs should ensure to update the consolidated list of individuals and entities as circulated by Reserve Bank. Further, the updated list of such individuals/entities can be accessed in the United Nations website at <http://www.un.org/sc/committees/1267/consolist.shtml>.

The Company shall before opening any new account, ensure that the name/s of the proposed customer does not appear in the list. Further, the Company shall scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to RBI and FIU-IND.

2. Maintenance of records of transactions

KFSL shall maintain proper record of transactions prescribed under Rule 3, of the Prevention of Money- Laundering and value of transactions, the procedure and manner of maintaining and verification and maintenance of records of the identity of the clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, as mentioned below:

- all cash transactions of the value of more than Rs. 10 Lacs or its equivalent in foreign currency;
- all series of cash transactions integrally connected to each other which have been valued below Rs. 10 Lacs or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rs. 10 Lacs;
- all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

Information to be preserved:

- i. Nature of transaction;
- ii. amount of the transaction and the currency in which it was denominated;
- iii. date on which the transaction was conducted; and
- iv. parties to the transaction

3. Preservation of records

KFSL will ensure that records pertaining to the identification of the customer and his / her address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least ten years after the business relationship is ended. KFSL may maintain records of the identity of the clients, and records in respect of transactions as referred in Rule 3 of the PMLA, 2002 in hard or soft copy. The identification records and transaction data will be made available to the competent authorities upon request.

4. Reliance on third party due diligence

For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, KFSL may rely on a third party subject to the conditions that:

- KFSL immediately obtains necessary information of such client due diligence carried out by the third party;
- KFSL takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- KFSL is satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act;
- the third party is not based in a country or jurisdiction assessed as high risk; and

- KFSL is ultimately responsible for client due diligence and undertaking enhanced due diligence measures, as applicable

5. Cash & Suspicious transactions reporting to Financial Intelligence Unit – India (FIU-IND)

Cash Transaction Reporting (CTR)

Monitoring & Reporting of the following transactions:

- all cash transactions of the value of more than Rs. 10 Lacs or its equivalent in foreign currency;
- all series of cash transactions integrally connected to each other which have been valued below Rs. 10 Lacs or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rs. 10 Lacs;
- Illustration of Integrally connected transaction

Date	Mode	Dr. (in Rs.)	Cr. (in Rs.)	Balance (in Rs.) BF : 8,00,000
02/04/2008	Cash	5,00,000	3,00,000	6,00,000
07/04/2008	Cash	40,000	2,00,000	7,60,000
08/04/2008	Cash	4,70,000	1,00,000	3,90,000
Monthly summation		10,10,000	6,00,000	

As per above transaction, the debit transaction in the above example are integrally connected cash transaction because total cash debits during the calendar month exceeds Rs 10 Lacs. However only the debit transaction taken place on 02/04 & 08/04 need to be reported as the transaction on 07/04 is less than Rs 50,000/-. The credit transactions in the above example would not be treated as integrally connected as the sum total does not exceed 10 Lacs and hence need not be reported

- The Cash Transaction Report (CTR) for each month to be submitted to FIU-IND by 15th of the succeeding month.
- While filing CTR, details of individual transactions below Rupees Fifty Thousand need not be furnished

Counterfeit Current Report (CCR)

Monitoring & Reporting of the following transactions:

- All cash transactions, where forged or counterfeit Indian currency notes have been used as genuine
- where forgery of valuable security or documents has taken place
- The CCR to be submitted not later than seven working days from the date of occurrence of such transaction

Suspicious Transaction Reporting (STR)

The Prevention of Money laundering Act, 2002 and the Rules thereunder require to furnish details of suspicious transactions whether or not made in cash. Suspicious transaction 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; or
- (b) appears to be made in circumstances of unusual or unjustified complexity; or
- (c) appears to have no economic rationale or bonafide purpose.

Broad categories of reason for suspicion and examples of suspicious transactions are indicated as under:

Identity of client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Accounts opened with names very close to other established business entities

Background of client

- Suspicious background or links with known criminals

Multiple accounts

- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale
- Unexplained transfers between multiple accounts with no rationale

Activity in accounts

- Unusual activity compared with past transactions
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business

Nature of transactions

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Frequent purchases of drafts or other negotiable instruments with cash
- Nature of transactions inconsistent with what would be expected from declared business

Value of transactions

- Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Value inconsistent with the client's apparent financial standing

STR to be submitted not later than seven working days on being satisfied that the transaction is suspicious. Principal Officer to record the reasons for treating the transaction as suspicious

Basic guidelines

- The formats for manual reporting of CTR, STR & consolidated report are maintained as a separate document
- A summary of cash transaction report for the company as a whole should be compiled by the Principal Officer of the bank in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted
- Utmost confidentiality to be maintained in filing of CTR and STR
- No tipping off to the customer at any level. In case transactions are abandoned/ aborted by customers on being asked to give some details or documents, then these will also be reported in STRs, even if not completed by customers

6. Appointment of Principal Officer

The Company has a senior management officer designated as Principal Officer. The Principal Officer will be located at the registered / corporate office and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. The name of the Principal Officer so designated, his designation and address including changes from time to time, shall be informed to the Director, FIU IND.

7. Reporting to Financial Intelligence Unit-India

In terms of the PMLA rules, KFSL will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

**Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat, Chanakyapuri,
New Delhi-110021**

8. An Indicative List of Suspicious Activities Transactions Involving Large Amounts of Cash

Company transactions, that are denominated by unusually large amounts of cash, rather than normally associated with the normal commercial operations of the company, e.g. cheques.

Transactions that do not make Economic Sense

Transactions in which assets are withdrawn immediately after being deposited unless the business activities of the customer's furnishes a plausible reason for immediate withdrawal.

Activities not consistent with the Customer's Business

Accounts with large volume of credits whereas the nature of business does not justify such credits.

Attempts to avoid Reporting/Record-keeping Requirements

- (i) A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
- (ii) Any individual or group that coerces/induces or attempts to coerce/induce a NBFC employee not to file any reports or any other forms.
- (iii) An account where there are several cash transactions below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.

Unusual Activities

Funds coming from the countries/ centers which are known for money laundering.

Customer who provides Insufficient or Suspicious Information

- (i) A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior business relationships, officers or directors, or its locations.
- (ii) A customer/company who is reluctant to reveal details about its activities or to provide financial statements
- (iii) A customer who has no record of past or present employment but makes frequent large transactions

Certain NBFC Employees arousing Suspicion

- (i) An employee whose lavish lifestyle cannot be supported by his or her salary.
- (ii) Negligence of employees/willful blindness is reported repeatedly.

Some examples of suspicious activities/transactions to be monitored by the operating staff-

- Large Cash Transactions
- Multiple accounts under the same name
- Placing funds in term Deposits and using them as security for more loans
- Sudden surge in activity level
- Same funds being moved repeatedly among several accounts