

KYC 'ANTI-MONEY LAUNDERING POLICY
(w.e.f. July 23, 2019)

Introduction: In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, SHFL is required to follow certain customer identification procedures while undertaking a transaction either by establishing an account based relationship or otherwise and monitor their transactions. Accordingly SHFL shall take steps to implement provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time, including operational instructions issued in pursuance of such amendment(s). This Policy, in compliance of the NHB Policy Circular NHB/ND/DRS/Policy Circular No. 94/2018-19 dated March 11, 2019 shall have immediate effect to know/understand their customers and their financial dealings better which in turn would help them manage their risks prudently and prevent SHFL from being used, intentionally or unintentionally, by criminal elements for money laundering activities.

2. Definitions:

2.1. In these Guidelines, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:-

2.1.1. "Aadhaar number" means an identification number as defined under sub-section (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, henceforth the 'Aadhaar Act';

2.1.2. "Act" and "Rules" means the Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, respectively and amendments thereto;

2.1.3. "Authentication" means the process as defined under sub-section (c) of section 2 of the Aadhaar Act;

2.1.4. Beneficial Owner (BO):

(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:-

(i) "Controlling ownership interest" means ownership of/entitlement to more than 25 per cent of the shares or capital or profits of the company.

(ii) "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 off 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 off 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.

2.1.5. "Cash Transactions" means "Cash Transactions" as defined under rule 3 of the Rules.

2.1.6. "Central KYC Records Registry" (CKYCR) means an entity defined under Rule 2(1)(aa) of the Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer.

2.1.7. "Customer" means a 'person', as defined below under Para 2.1.17 below, who is engaged in a financial transaction or activity with SHFL and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

2.1.8. "Customer Due Diligence" (CDD) means "Client Due Diligence" as defined under rule 9 of the Rules and the amendments thereto.

2.1.9. "Customer Identification" means undertaking the process of CDD.

2.1.10. "Designated Director" means a "Designated Director" as defined under rule 2(ba) of the Rules.

2.1.11. "FATCA" means Foreign Account Tax Compliance Act of the United States of America (USA) which, inter alia, requires foreign financial institutions to report about financial accounts held by U.s. taxpayers or foreign entities in which u.s. taxpayers hold a substantial ownership interest.

2.1.12. "KYC Templates" means templates prepared to facilitate collating and reporting the KYC data to the CKYCR, for individuals and legal entities.

2.1.13. "Non-face-to-face customers" means customers who open accounts without visiting the branch/offices of SHFL or meeting the officials of SHFL.

2.1.14. "Officially Valid Document" (OVD) means OVD as defined under rule 2(l)(d) of the Rules and the amendments thereto.

2.1.15. "On-going Due Diligence" means regular monitoring of transactions in accounts to ensure that they are consistent with the customers' profile and source of funds.

2.1.16. "Periodic Updation" means steps taken to ensure that documents, data or information collected under the CDD process is kept up-to-date and relevant by undertaking reviews of existing records at periodicity prescribed by the National Housing Bank.

2.1.17. "Person" has the same meaning as defined in the *Act* and includes:

- (a) an individual,
- (b) a Hindu undivided family,
- (c) a company,
- (d) a firm,
- (e) an association of persons or a body of individuals, whether incorporated or not,
- (f) every artificial juridical person, not falling within anyone of the above persons (a to e), and
- (g) any agency, office or branch owned or controlled by any of the above persons (a to f).

2.1.18. "Politically Exposed Persons" (PEPs) are individuals who are or have been entrusted with prominent public functions e.g., Heads of States/Governments, senior politicians, senior government/ judicial/ military officers, senior executives of state-owned corporations, important political party officials, etc.

2.1.19. "Principal Officer" means "Principal Officer" as defined under rule 2(f) the Rules.

2.1.20. "Suspicious Transaction" means "Suspicious Transaction" as defined under rule 2(g) of the Rules

2.1.21. "Transaction" means "Transaction" as defined under rule 2(h) of the Rules.

2.2. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Prevention of Money Laundering Act and Prevention of Money Laundering (Maintenance of Records) Rules, any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

3. Know Your Customer (KYC) Policy:

3.1. SHFL shall frame a Policy on 'Know Your Customer' (KYC) and 'Anti Money Laundering (AML) Measures' duly approved by its Board of Directors.

3.2. The policy shall include following four key elements:

- (a) Customer Acceptance Policy;
- (b) Risk Management;
- (c) Customer Identification Procedures (CIP); and
- (d) Monitoring of Transactions

4. Designated Director:

- (a) A "Designated Director" means a person designated by SHFL to ensure overall compliance with the obligations imposed under Chapter IV of the Act and shall be nominated by the Board of SHFL.
- (b) The name, designation and address of the Designated Director, including changes from time to time, shall be communicated to the Director, FIU-IND and also to the National Housing Bank.
- (c) In no case, the 'Principal Officer' shall be nominated as the 'Designated Director'.

5. Principal Officer:

- (a) SHFL shall appoint a "Principal Officer" (preferably of the level immediately below the level of MD & CEO).
- (b) The Principal Officer shall be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.
- (c) The name, designation and address of the Principal Officer, including changes from time to time, shall be communicated to the Director, Financial Intelligence Unit - India (FIU-IND) and also to the National Housing Bank.

6. Compliance of KYC policy:

SHFL shall ensure compliance with KYC Policy through:

- (a) Specifying as to what constitutes 'Senior Management' for the purpose of KYC compliance.
 - (b) Allocation of responsibility for effective implementation of policies and procedures.
 - (c) Independent evaluation of the compliance functions of SHFL's policies and procedures, including legal and regulatory requirements.
 - (d) Concurrent/internal audit system to verify the compliance with KYC/ Anti-Money Laundering (AML) policies and procedures.
 - (e) Submission of quarterly audit notes and compliance to the Audit Committee.
- SHFL shall ensure that decision-making functions of determining compliance with KYC norms are not outsourced.

CUSTOMER ACCEPTANCE POLICY

7. Without prejudice to the generality of the aspect that Customer Acceptance Policy may contain, SHFL shall ensure that:

- a) No account is opened in anonymous or *fictitious/benami* name.
- b) No account is opened where SHFL is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.
- c) No transaction or account based relationship is undertaken without following the CDD procedure.
- d) The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
- e) Optional additional information, is obtained with the explicit consent of the customer after the account is opened.
- f) CDD Procedure is followed for all the joint account holders, while opening a joint account.

- g) If an existing KYC compliant customer of SHFL desires to open another account with the company, there shall be no need for a fresh CDD exercise.
- h) Circumstances in which, a customer is permitted to act on behalf of another person/ entity, is clearly spelt out.
- i) Suitable system is put in place to ensure that the identity of the customer does not match with any person or entity, whose name appears in the sanctions lists issued by UN Security Council circulated by National Housing Bank from time to time.

8. The adoption of the Customer Acceptance Policy and its implementation shall not result in denial of SHFL's services to general public, especially to those, who are financially or socially disadvantaged.

RISK MANAGEMENT

9. The Board of Directors of the SHFL shall ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It shall cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility shall be explicitly allocated within the company for ensuring that the Company's policies and procedures are implemented effectively. SHFL shall devise procedures for creating Risk Profiles of their existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.

For Risk Management, SHFL shall have a risk based approach which includes the following:

- (a) Customers shall be categorised as low, medium and high risk category, based on the assessment and risk perception of the company.
- (b) The Risk categorisation shall be undertaken based on parameters such as customer's identity, social financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.

Provided that various other information collected from different categories of customers relating to the perceived risk, is non-intrusive and the same may be specified in SHFL's KYC policy.

The Recommendations made by the Financial Action Task Force (FATF) on Anti-money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards shall also be used in risk assessment.

CUSTOMER IDENTIFICATION PROCEDURE (CIP)

10. SHFL shall undertake identification of customers in the following cases:

- (a) Commencement of an account-based relationship with the customer.
- (b) When there is a doubt about the authenticity or adequacy of the customer identification data it has obtained.
- (c) Selling third party products as agents, selling their own products and any other product for more than rupees fifty thousand.

11. For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, SHFL, shall at their option, rely on CDD done by a third party, subject to the following conditions:

- (a) Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
- (b) Adequate steps are taken by SHFL to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
- (c) The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the Prevention of Money-Laundering Act.
- (d) The third party shall not be based in a country or jurisdiction assessed as high risk.
- (e) The ultimate responsibility for CDD, including done by a third party and undertaking enhanced due diligence measures, as applicable, shall rest with SHFL.

CUSTOMER DUE DILIGENCE (CDD) PROCEDURE

12. Procedure for obtaining identification

a) While undertaking CDD, SHFL shall obtain the following information from an individual while establishing an account based relationship with an 'individual' or dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:

(i) the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act, or certified copy of an OVD containing details of identity and address, and one recent photograph; and

(ii) the Permanent Account Number (PAN) or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time.

Explanation 1- Obtaining a certified copy by SHFL shall mean comparing the copy of OVD so produced by the client with the original and recording the same on the copy by the authorized officer of SHFL.

Explanation 2: The submission of Aadhaar by an individual as a KYC document in cases other than mentioned at (i) above cannot be insisted upon by SHFL. However, the individual, if so desires, may provide the same out of his own volition. Customers, at their option, shall submit one of the OVDs

Explanation 3: Where the customer is submitting Aadhaar, SHFL shall be guided by directions issued by Unique Identification Authority of India from time to time.

b) In case the OVD furnished by the customer does not contain updated address, the following documents shall be deemed to be OVDs for the limited purpose of proof of address:-

- i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ii. property or Municipal tax receipt;

- iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- (iv) letter of allotment of accommodation from employer issued by State Government or Central public sector undertakings, statutory and regulatory bodies, public sector undertaking, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;

Provided that in case the OVD submitted by a foreign national does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address.

Provided further that the customer shall submit updated OVD with current address within a period of three months of submitting the above documents.

- c) A customer already having an account based relationship with SHFL, shall submit his Permanent Account Number or Form No.60, on such date as may be notified by the Central Government, failing which the account shall temporarily cease to be operational till the time the Permanent Account Number or Form No. 60 is submitted by the customer:

Provided that before temporarily ceasing operations for an account, SHFL shall give the customer an accessible notice and a reasonable opportunity to be heard.

Explanation: - For the purpose of this clause, "temporary ceasing of operations" in relation an account means the temporary suspension of all transactions or activities in relation to that account by SHFL till such time the customer complies with the provisions of this clause;

In case of asset accounts such as loan accounts, for the purpose of ceasing the operation in the account, only credits shall be allowed.

- d) If a customer having an existing account based relationship with SHFL gives in writing to the company that he/ she does not want to submit his/her Permanent Account Number or Form No.60, as the case may be, the customer's account with SHFL shall be closed and all obligations due in relation to the account shall be appropriately settled after establishing the identity of the customer. SHFL shall duly inform the customer about this provision while opening the account.

CDD Procedure in case of individuals

13. SHFL shall apply the following procedure while establishing an account based relationship with an individual:

- (a) Obtain information as mentioned under Section 12; and
- (b) such other documents pertaining to the nature of business or financial status specified by SHFL in their KYC policy.

The Board approved policy on KYC& AML Measures of SHFL shall also provide appropriate relaxation for continued operation of accounts of customers who are unable to provide Permanent Account Number or Form No.60 owing to injury, illness or infirmity on account of old age or otherwise, and such like causes.

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.

CDD Measures for Sole Proprietary Firms

14. For opening an account in the name of a sole proprietary firm, identification information as mentioned under Section 12 in respect of the individual (proprietor) shall be obtained.

15. 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/licence issued by the municipal authorities under Shop and Establishment Act.
- (c) Sales and income tax returns.
- (d) CST/V AT/CST certificate (provisional/ final).
- (e) Certificate/registration document issued by Sales Tax/Service Tax/ Professional Tax authorities.
- (f) IEC (Importer Exporter Code) issued to the proprietary concern by the office of DCFT/Licence/ 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.

16. In cases where SHFL is satisfied that it is not possible to furnish two such documents, SHFL may, at their discretion, accept only one of those documents as proof of business/activity.

Provided SHFL shall undertake contact point verification 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.

CDD Measures for Legal Entities

17. For opening an account of a company, one certified copy of each of the following documents shall be obtained:

- (a) Certificate of incorporation;
- (b) Memorandum and Articles of Association;
- (c) Permanent Account Number of the company;
- (d) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf;

(e) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

18. For opening an account of a partnership firm, one certified copy of each of the following documents shall be obtained:

- (a) Registration certificate;
- (b) Partnership deed;
- (c) Permanent Account Number of the partnership firm;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

19. For opening an account of a trust, one certified copy of each of the following documents shall be obtained:

- (a) Registration certificate;
- (b) Trust deed;
- (c) Permanent Account Number or Form No.60 of the trust;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf-

20. For opening an account of an unincorporated association or a body of individuals, one certified copy of each of the following documents shall be obtained:

- (a) resolution of the managing body of such association or body of individuals;
- (b) Permanent Account Number or Form No.60 of the unincorporated association or a body of individuals;
- (c) power of attorney granted to transact on its behalf;
- (d) one copy of an OVD containing details of identity and address, one recent photograph and Permanent Account Numbers of Form 60 of the managers, officers or employees, as the case may be, holding an attorney to transact on its behalf identification information as mentioned under
- (e) Such information as may be required by SHFL to collectively establish the legal existence of such an association or body of individuals.

Explanation - Unregistered trusts/partnership firms shall be included under the term 'unincorporated association' and the term 'body of individuals, includes societies.

21. For opening accounts of juridical persons not specifically covered in the earlier part, such as Government or its Departments, societies, universities and local bodies like village panchayats, one certified copy of the following documents shall be obtained:

- (a) Document showing name of the person authorised to act on behalf of the entity;
- (b) Aadhaar/PAN/ OVD for proof of identity and address in respect of the person holding an attorney to transact on its behalf and

(c) Such documents as may be required by SHFL to establish the legal existence of such an entity/juridical person.

CDD Measures for Identification of Beneficial Owner

22. 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.

Enhanced Due Diligence Measures

23. Accounts of Non-face-to-face customers: SHFL shall ensure that the first payment is to be effected through the customer's KYC-complied account, for enhanced due diligence of non-face to face customers.

24. Accounts of Politically Exposed Persons (PEPs):

(i) SHFL shall have the option of establishing a relationship with PEPs provided that:

(a) sufficient information including information about the sources of funds accounts of family members and close relatives is gathered on the PEP;

(b) the identity of the person shall have been verified before accepting the PEP

(c) the decision to open an account for a PEP is taken at a senior level in accordance with SHFL's Customer Acceptance Policy;

(d) all such accounts are subjected to enhanced monitoring on an on-going basis;

(e) in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, senior management's approval is obtained to continue the business relationship;

(f) The CDD measures as applicable to PEPs including enhanced monitoring on an on-going basis are applicable.

(ii) These instructions shall also be applicable to accounts where a PEP is the beneficial owner.

25. Customer's accounts opened by Professional Intermediaries:

SHFL shall ensure while opening customer's accounts through professional intermediaries, that:

(a) Customer shall be identified when client account is opened by a professional intermediary on behalf of a single client.

(b) SHFL shall have option to hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds.

(c) SHFL shall not open accounts of such professional intermediaries who are bound by any client confidentiality that prohibits disclosure of the client details to SHFL.

(d) All the beneficial owners shall be identified where funds held by the intermediaries are not co-mingled at the level of Company (SHFL), and there are 'subaccounts', each of them attributable to a beneficial owner, or where such funds

are co-mingled at the level of the Company (SHFL), SHFL shall look for the beneficial owners.

(e) SHFL shall, at their discretion, rely on the CDD done by an intermediary, provided that the intermediary is a regulated and supervised entity and has adequate systems in place to comply with the KYC requirements of the customers.

(f) The ultimate responsibility for knowing the customer lies with SHFL.

ONGOING DUE DILIGENCE

26. Ongoing monitoring is an essential element of effective KYC procedures. SHFL can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity.

a) SHFL shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

b) The extent of monitoring shall be aligned with the risk category of the customer. A system of periodic review of risk categorisation of accounts, with such periodicity as specified in SHFL's KYC Policy shall be put in place.

c) For the purpose of risk categorization, individuals (other than High Net Worth) 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. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments & Government owned companies, regulators and statutory bodies, etc. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met.

d) Customers that are likely to pose a higher than average risk to SHFL may be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile, etc. SHFL may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear.

Examples of customers requiring higher due diligence may include

- non-resident customers,
- high net worth individuals,
- trusts, charities, NGOs and organizations receiving donations,
- companies having close family shareholding or beneficial ownership,
- firms with 'sleeping partners',
- politically exposed persons (PEPs) of foreign origin,
- non-face to face customers, and
- those with dubious reputation as per public information available, etc.

27. Periodic Updation

Periodic KYC updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers as per the following procedure:

- a) SHFL shall carry out
 - i) PAN verification from the verification facility available with the issuing authority and
 - ii) Authentication, of Aadhaar Number already available with SHFL with the explicit consent of the customer in applicable cases.
 - iii) In case identification information available with Aadhaar does not contain current address an OVD containing current address may be obtained.
 - iv) Certified copy of OVD containing identity and address shall be obtained at the time of periodic updation from individuals except those who are categorised as 'low risk'. In case of low risk customers when there is no change in status with respect to their identities and addresses, a self-certification to that effect shall be obtained.
 - v) In case of Legal entities, SHFL shall review the documents sought at the time of opening of account and obtain fresh certified copies.
- b) SHFL may not insist on the physical presence of the customer for the purpose of furnishing OVD or furnishing consent for Aadhaar authentication unless there are sufficient reasons that physical presence of the account holder/holders is required to establish their bona-fides. Normally, OVD / Consent forwarded by the customer through mail/ post, etc., shall be acceptable.
- c) SHFL shall ensure to provide acknowledgment with date of having performed KYC updation.
- d) The time limits prescribed above would apply from the date of opening of the account/ last verification of KYC.

MONITORING OF TRANSACTIONS

28. Maintenance of records of transactions:

- (i) SHFL shall introduce a system of Maintenance of records, at each branch and a consolidated record for all the branches taken together at the registered office of SHFL, of transactions (nature and value), in such form and for such period as specified under the Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.
- (ii) SHFL shall maintain all necessary information in respect of transactions prescribed under Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, so as to permit reconstruction of individual transaction, including the following:
 - (a) the nature of the transactions;
 - (b) the amount of the transaction and the currency in which it was denominated;
 - (c) the date on which the transaction was conducted; and
 - (d) the parties to the transaction.

(iii) SHFL shall take appropriate steps to evolve a system for proper maintenance and preservation of information in a manner (in hard and soft copies) that allows information to be retrieved easily and quickly whenever required or requested by the competent authorities.

29. Furnishing of information to the Director, Financial Intelligence Unit – India (FIU-IND):

(i) In terms of the provisions of the Rule 8 of the Prevention of Money-laundering(Maintenance of Records) Rules, 2005. SHFL shall, *inter-alia*, furnish to the Director, FIU-IND, within such time and in such form, the information in respect of transactions as referred under sub-rule (1) of rule 3 of the said Rules.

(ii) A copy of information furnished shall be retained by the 'Principal Officer' for the purposes of official record.

Explanation: In terms of Third Amendment Rules notified September 22, 2015 regarding amendment to sub rule 3 and 4 of rule 7, Director, FIU-IND shall have powers to issue guidelines to the reporting entities for detecting transactions referred to in various clauses of sub-rule (1) of rule 3, to direct them about the form of furnishing information and to specify the procedure and the manner of furnishing information.

(iii) It has been advised by the FIU-IND that SHFL need not submit 'NIL' reports in case there are no Cash/Suspicious Transactions, during a particular period. SHFL shall act accordingly.

(iv) The reporting formats and comprehensive reporting format guide, prescribed/released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports shall be taken note of. The editable electronic utilities to file electronic Cash Transaction Reports (CTR)/ Suspicious Transaction Reports (STR) which FIU-IND has placed on its website shall be made use of by SHFL which are yet to install/ adopt suitable technological tools for extracting CTR/STR from their live transaction data. The Principal Officers of SHFL, whose all branches are not fully computerized, shall have suitable arrangement to cull out the transaction details from branches which are not yet computerized and to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND on its website <http://fiuindia.gov.in>.

(v) While furnishing information to the Director, FIU-IND, delay of each day in not reporting a transaction or delay of each day in rectifying a mis-represented transaction beyond the time limit as specified in the said Rules shall be constituted as a separate violation.

(vi) SHFL shall not put any restriction on operations in the accounts where an STR has been filed. SHFL shall keep the fact of furnishing of STR strictly confidential. It shall be ensured that there is no tipping off to the customer at any level.

(vii) Robust software, throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers may be put in to use as a part of effective identification and reporting of suspicious transactions.

30. Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

(i) Under FATCA and CRS, SHFL shall adhere to the provisions of Income Tax Rules 114F, 114G and 114H and determine whether they are Reporting Financial Institution as defined in Income Tax Rule 114F and if so, shall take following steps for complying with the reporting requirements:

(a) Register on the related e-filing portal of Income Tax Department as Reporting Financial Institutions at the link <https://incometaxindiaefiling.gov.in/> post login --> My Account --> Register as Reporting Financial Institution

(b) Submit online reports by using the digital signature of the 'Designated Director' by either uploading the Form 61B or 'NIL' report, for which, the schema prepared by Central Board of Direct Taxes (CBDT) shall be referred to.

Explanation - SHFL shall refer to the spot reference rates published by Foreign Exchange Dealers' Association of India (FEDAI) on their website at <http://www.fedai.org.in/RevaluationRates.aspx> for carrying out the due diligence procedure for the purposes of identifying reportable accounts in terms of Rule 114H of Income Tax Rules.

(c) Develop Information Technology (IT) framework for carrying out due diligence procedure and for recording and maintaining the same, as provided in Rule 114H of Income Tax Rules.

(d) Develop a system of audit for the IT framework and compliance with Rules 114F, 114G and 114H of Income Tax Rules.

(e) Constitute a "High Level Monitoring Committee" under the Designated Director or any other equivalent functionary to ensure compliance.

(f) Ensure compliance with updated instructions/ rules/ guidance notes/ Press releases/ issued on the subject by Central Board of Direct Taxes (CBDT) from time to time.

(ii) In addition to the above, other United Nations Security Council Resolutions (UNSCRs) circulated by the Reserve Bank in respect of any other jurisdictions/entities from time to time shall also be taken note of.

OTHER MEASURES

31. Secrecy Obligations and Sharing of Information:

(i) SHFL shall maintain secrecy regarding the customer information which arises out of the contractual relationship between the lender and customer.

(ii) While considering the requests for data/information from Government and other agencies, SHFL shall satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the laws relating to secrecy in transactions.

(iii) An illustrative (but not exhaustive) list of suspicious transactions in housing/builder / project loans is furnished in Annexure - I for guidance of SHFL.

32. Sharing KYC information with Central KYCRecords Registry (CKYCR)

SHFL shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC templates prepared for 'individuals' and 'Legal Entities' as the case may be. Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR vide Gazette Notification No. S.O. 3183(E) dated November 26, 2015. SHFL shall upload the Know Your Customer (KYC) data with CERSAI in respect of new individual accounts opened on or after November 01, 2016.

33. Hiring of Employees and Employee training

(a) Adequate screening mechanism as an integral part of their personnel recruitment/hiring process shall be put in place.

(b) On-going employee training programme shall be put in place so that the members of staff are adequately trained in KYC/AML Measures policy. The focus of the training shall be different for frontline staff, compliance staff and staff dealing with new customers. The front desk staff shall be specially trained to handle issues arising from lack of customer education. Proper staffing of the audit function with persons adequately trained and well-versed in KYC/AML Measures policies of SHFL, regulation and related issues shall be ensured.

34. Selling Third party products:

SHFL acting as agents while selling third party products shall comply with the applicable laws/regulations, including system capabilities for capturing, generating and analysing alerts for the purpose of filing CTR/STR in respect of transactions relating to third party products with customers.

37. Adherence to Know Your Customer (KYC) guidelines by SHFL and persons authorised by SHFL including brokers/agents etc.

(a) Persons authorized by SHFL for selling loan related products, their brokers/ agents or the like, shall be fully compliant with the KYC guidelines applicable to SHFL.

(b) All information shall be made available to the National Housing Bank to verify the compliance with the KYC guidelines and accept full consequences of any violation by the persons authorised by SHFL including brokers/ agents etc. who are operating on their behalf.

38. SHFL shall ensure that the provisions of the PML Act, Rules framed thereunder and the the Foreign Contribution (Regulation) Act, 2010, applicable, are adhered to strictly.

39. Where SHFL is unable to apply appropriate KYC measures due to non-furnishing of information and / or non-cooperation by the customer, SHFL may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level.

40. The provision of this SHFL KYC-AML Policy shall supercede all the versions of KYC-AML policy issued and circulated earlier

Annexure-I

A. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER/PROJECT/ CORPORATE CLIENTS:

- 1) Builder approaching the SHFL for a small loan compared to the total cost of the project;
- 2) Builder is unable to explain the sources of funding for the project;
- 3) Approvals/sanctions from various authorities are proved to be fake or if it appears that client does not wish to obtain necessary governmental approvals/ filings, etc.;
- 4) Management appears to be acting according to instructions of unknown or inappropriate person(s).
- 5) Employee numbers or structure out of keeping with size or nature of the business (for instance the turnover of a company is unreasonably high considering the number of employees and assets used).
- 6) Clients with multijurisdictional operations that do not have adequate centralised corporate oversight.
- 7) Advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/ corporate seat or other complex group structures).
- 8) Entities with a high level of transactions in cash or readily transferable assets, among which illegitimate funds could be obscured.

B. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO INDIVIDUALS:

- 1) Legal structure of client has been altered numerous times (name changes, transfer of ownership, change of corporate seat).
- 2) Unnecessarily complex client structure.
- 3) Individual or classes of transactions that take place outside the established business profile, and expected activities/ transaction unclear.
- 4) Customer is reluctant to provide information, data, documents;
- 5) Submission of false documents, data, purpose of loan, details of accounts;
- 6) Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc.;
- 7) Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
- 8) Approaches a branch/ office of SHFL, which is away from the customer's residential or business address provided in the loan application, when there is a branch/ office nearer to the given address;
- 9) Unable to explain or satisfy the numerous transfers in account/ multiple accounts;
- 10) Initial contribution made through unrelated third party accounts without proper justification;
- 11) Availing a top-up loan and/ or equity loan, without proper justification of the end use of the loan amount;
- 12) Suggesting dubious means for the sanction of loan;
- 13) Where transactions do not make economic sense;
- 14) Unusual financial transactions with unknown source.

- 15) Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.
- 16) There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
- 17) Encashment of loan amount by opening a fictitious bank account;
- 18) Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
- 19) Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
- 20) Multiple funding of the same property/dwelling unit;
- 21) Request for payment made in favour of a third party who has no relation to the transaction;
- 22) Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
- 23) Multiple funding / financing involving NCO / Charitable Organisation / Small/ Medium Establishments (SMEs) / Self Help Groups (SHCs) / Micro Finance Groups (MFCs)
- 24) Frequent requests for change of address;
- 25) Overpayment of instalments with a request to refund the overpaid amount.
- 26) Investment in real estate at a higher/lower price than expected.
- 27) Clients incorporated in countries that permit bearer shares.