KYC / AML Policy of the Company

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Registered Office

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BANGALORE – 560 004

GUIDELINES ON 'KNOW YOUR CUSTOMER' AND ANTI-MONEY LAUNDERING MEASURES OF CANFINHOMES LTD

'Know Your Customer' Policy

1. The objective of 'Know Your Customer (KYC) Guidelines' is to prevent housing finance companies (HFCs) from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable HFCs to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently***. As per NHB guidelines, HFC'***s should frame their KYC policies incorporating the following four key elements:
(i) Customer Acceptance Policy;
(ii) Customer Identification Procedures;
(iii) Monitoring of Transactions; and
(iv) Risk management.

2. For the purpose of KYC policy, a 'Customer' may be defined as:

- a person or entity that maintains an account and/or has a business relationship with the HFC;
- 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
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the HFC, say, a wire transfer or issue of a high value demand draft as a single transaction.
- ***The DSA's/ Panel Advocates/ Valuers/ Professionals and other third party entities engaged by the Company in the course of business.***

Customer Acceptance Policy

3. HFCs should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the HFC:-
(i) No account is opened/ ***loan granted or services are utilized*** in anonymous or fictitious/benami name(s);
(ii) Parameters of risk perception are clearly defined in terms of the location of customer and his clients and mode of payments, volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (HFCs may choose any suitable nomenclature, viz. level I, level II, level III etc.); customers requiring very high level of monitoring, e.g. Politically Exposed Persons (PEPs – as explained in Annex I) may, if considered necessary, be categorised even higher;
(iii) Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering Act, 2002 (Central Act No. 15 of 2003) (hereinafter referred to as PMLA), rules framed thereunder and guidelines issued from time to time;
(iv) Not to open an account or close an existing account where the HFC is unable to apply appropriate customer due diligence measures, i.e. HFC is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non co-operation of the customer or non reliability of the data/information furnished to the HFC. It may, however, be necessary to have suitable built-in safeguards to avoid harassment of the customer. For example, decision to close an account may be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision;
(v) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should 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
(vi) Necessary checks before opening a new account so as 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.

4. HFCs shall prepare a profile for each new customer based on risk categorization. The customer profile may contain information relating to the customer's identity, social/financial status, nature of business activity, information about his clients' business and their location, etc. The nature and extent of due diligence will depend on the risk perceived by the HFC. However, while preparing

customer profile the HFCs should take care to seek only such information from the customer which is relevant to the risk category and is not intrusive, and is in conformity with the guidelines issued in this regard. Any other information from the customer should be sought separately with his/her consent and after opening the account. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or any other purposes.

5. 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.

6. Customers that are likely to pose a higher than average risk to the HFC 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. HFCs 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

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

As regards the accounts of PEPs it is advised that in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, HFC should obtain senior management approval in such cases to continue the business relationship with such person, and also undertake enhanced monitoring as specified in Annexure – I .

7. It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation should not become too restrictive and must not result in denial of HFC's services to general public, especially to those, who are financially or socially disadvantaged.

Customer Identification Procedure (CIP)

8. Rule 9 of the Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, The Procedure and Manner of Maintaining and Time for Furnishing information and Verification and Maintenance of Records of the Identity of the Clients of the HFCing Companies, Financial Institutions and Intermediaries) Rules, 2005 (hereinafter referred to as PML Rules), requires every HFC:

1. at the time of commencement of an account–based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and
2. in all other cases, verify identity while carrying out :
3. transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or
4. any international money transfer operations.

In terms of proviso to rule 9 of the PML Rules, the relaxation, in verifying the identity of the client within a reasonable time after opening the account/ execution of the transaction, stands withdrawn***. Accordingly, such verification of the identity of the customer is to be done before the opening of any account or entering into any dealing with the customer.***

Rule 9 also provides that every HFC shall identify the beneficial owner and take all reasonable steps to verify his identity. ***The beneficiary owner is defined as the natural person who ultimately owns or controls a clients and/or the person on whose behalf the transaction is being conducted,***

and includes a person who exercises ultimate effective control over a judicious person. Where a client is person other than an individual or trust, the HFC shall identify the beneficiary owners off the client and take reasonable measures to verify the identity of such persons through appropriate means. Where the client is a trust, the HFC shall identify the beneficiary owners of the client and take reasonable measures to verify the identity of such persons to the identity of the settler of the trust, the trustee, protector, 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/ ownership. . The said Rule also require HFCs to exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

Therefore, the Customer Identification Policy approved by the Board of an HFC should clearly spell out the Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when the HFC 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/s.

9. HFCs need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Rule 9 of the PML Rules provides for the documents/information to be obtained for identifying various types of customers i.e. individuals, companies, partnership firms, trusts, unincorporated association or a body of individuals and juridical persons. HFCs are advised to take note of the provisions of the above rule and ensure compliance. Customer identification requirements keeping in view the provisions of the said rule are also given in **Annex-I** for guidance of HFCs. An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in the **Annex-II.** HFCs ***are required to frame*** their own internal guidelines based on their experience of dealing with such persons/entities, normal prudence and the legal requirements.

10. Each HFC should formulate and implement a Client Identification Programme to determine the true identity of its clients keeping the above in view. ***The Company will follow the client identification programme based on the guidelines issued by FIU Ind./ NHB from time to time.***

The increasing complexity and volume of financial transactions necessitate that customer do not have multiple identities with the HFC across the system. This can be achieved by introducing Unique Customer Identification code for each customer. HFC should allot Unique Customer ID code to all their customers while entering into any new relationships for individual customers. Similarly, existing individual customers should be allotted Unique customer ID's which will help the Company to identify the customers, track the facilities availed, monitor financial transactions, in a whole stick manner and to have a better approach to risk profiling of the customers. This will also enable the HFC to smoothen operations for the customers.

Monitoring of Transactions

11. Ongoing monitoring is an essential element of effective KYC procedures. HFCs 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. However, the extent of monitoring will depend on the risk sensitivity of the account. HFCs should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. The HFC may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits. Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of the HFC. Very high account turnover inconsistent with the size of the balance maintained may indicate that funds are being 'washed' through the account. High-risk accounts have to be subjected to intensified monitoring. Every HFC should set key indicators for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors. HFCs should put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures.

Risk Management

12. The Board of Directors of the HFC should ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It should cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the HFC for ensuring that the housing finance companies' policies and procedures are implemented effectively. HFCs may, in consultation with their Boards, 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.

13. HFCs' internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of the HFC's own policies and procedures, including legal and regulatory requirements. HFCs should ensure that their audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ Internal Auditors should specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard may be put up before the Audit Committee of the Board at quarterly intervals. HFC should ensure that there is proper system of fixing accountability for serious lapses and intentional circumvention of prescribed procedures and guidelines.

13.1. The Company shall prepare a profile for all the customer based on the risk categorization. The customer profile shall contain information relating to Customer identity, social/financial status, nature of business activity, information about his client business and their location etc. The nature and extent of due diligent will depend risk perceived by the Company. The Company shall ensure to classify the customer as low risk, medium risk and high risk, depending on background, nature and location of the activity. The risk profile should be reviewed at periodical intervals by obtaining the required information. The indicative list of the customers as low risk, medium risk and high risk are as under:

a) Low Risk: Ex Staff of the Company, Govt/Semi Govt Employees, Individuals, pensioners, proprietor ship concerns, Staff Members of public sector Companies, Co-operative Societies, Senior Citizens etc.

b) Medium Risk: Small business enterprises like Pawn Shop, Auctioneers, Cash intensive business as Restaurants, Retail shop, garages, Sole practitioners like law firms, notaries, accountants, bling persons, purthanashin ladies and unregistered bodies.

c) High risk: Customer conducting their business or transactions in unusual circumstances, customer based in high risk countries, politically exposes persons, non-resident customers and foreign nationers, high net worth individuals, firms with sleeping partners, Companys having close family shareholders, shell companies, Trust, Charities, NGO's, NPO's, Customers engaged in business which is associated with higher level of corruption, customers dealing with real estate business, bullion dealers, stock brokers and HUF's.

14. Customer Education – Employee's Training

<u>Customer education</u>: Implementation of KYC procedures requires HFCs to demand certain information from customers which may be of personal nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for HFCs to prepare specific literature/ pamphlets, etc. so as to educate the customer about the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

<u>Employee Training:</u> The HFC shall have an ongoing employee training programme, so that members of the staff are adequately trained in KYC procedures and fully understand the rationale behind the KYC policies and implement them consistently.

<u>15. Employees hiring:</u> The KYC norms, AML standards, CFT measures have been prescribed to ensure that criminals are not allowed to misuse the financial sector. It would therefore be necessary that adequate screening mechanism is put in place by HFC as an integral part of recruitment/ hiring process of personal.

16. Introduction of New Technologies

HFCs should pay special attention to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

17. Applicability to branches and subsidiaries outside India

The above guidelines shall also apply to the branches and majority owned subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws permit. When local applicable laws and regulations prohibit implementation of these guidelines, the same should be brought to the notice of National Housing HFC and RBI.

18. Appointment of Principal Officer

HFCs may appoint a senior management officer, preferably of the level of General Manager/ ***Deputy General Manager or an Official*** immediately below the level of CMD/ED of the HFC (depending on the internal organisational structure of the housing finance company) be designated as 'Principal Officer'. The name of the Principal Officer so designated, his designation and address including changes from time to time, may please be advised to the Director, FIU-IND and also to NHB. Principal Officer shall be located at the head/corporate office of the HFC and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, HFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

Role and responsibilities of the Principal Officer should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended form time to time. The Principal Officer will also be responsible for timely submission of CTR, STR and reporting of counterfeit notes and all transactions involving receipts by non-profit organisations of value more than Rupees Ten Lakh or its equivalent in foreign currency to FIU-IND.

With a view to enabling the Principal Officer to discharge his responsibilities effectively, the Principal Officer and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information.

19. Maintenance of records of transactions

HFCs should introduce a system of maintaining proper record of transactions as required under section 12 of the PMLA read with Rule 3 of the PML Rules, as mentioned below:

1. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
2. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh 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 rupees ten lakh;
3. all transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency;
4. all cash transactions where forged or counterfeit currency notes or HFC notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transactions; and
5. all suspicious transactions whether or not made in cash and by way of as mentioned in the Rule 3(1) (D).

20. HFCs should ensure that their branches continue to maintain proper record of all cash transactions (deposits and withdrawals) of Rs.10 lakh and above. The internal monitoring system should have an inbuilt procedure for reporting of such transactions and those of suspicious nature whether made in cash or otherwise, to controlling/head office on a fortnightly basis.

21. Records to contain the specified information

Records referred to above in Rule 3 of the PMLA Rules to contain the following information:-

1. the nature of the transactions;
2. the amount of the transaction and the currency in which it was denominated;
3. the date on which the transaction was conducted; and
4. the parties to the transaction.

22.Maintenance and Preservation of records

Section 12 of PMLA requires every housing finance company to maintain records as under:
(a) records of all transactions referred to in clause (a) of Sub-section (1) of section 12 read with Rule 3 of the PML Rules is required to be maintained for a period of ten years from the date of transactions between the clients and the housing finance company.
(b) records of the identity of all clients of the housing finance company is required to be maintained for a period of ten years from the date of cessation of transactions between the clients and the housing finance company.
HFCs should take appropriate steps to evolve a system for proper maintenance and preservation of information in a manner (in hard and soft copies) that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

23. Reporting to Financial Intelligence Unit-India

Section 12 of PMLA requires every housing finance company to report information of transaction referred to in clause (a) of sub-section (1) of section 12 read with Rule 3 of the PML Rules relating to cash and suspicious transactions etc. to the Director, Financial Intelligence Unit-India (FIU-IND). The proviso to the said section also provides that where the principal officer of a HFC has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value to so to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

a) In terms of the PMLA Rules, HFC's are required to report information relating to cash and suspicious transactions and all transactions involving receipts by non-profit organisations of value more than rupees ten lakh or its equivalent in foreign currency to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat, Chanakyapuri,
New Delhi -110021 Website - http://fiuindia.gov.in/

Explanation: Government of India Notification dated November 12, 2009- Rule 2 sub-rule (1) clause (ca) defines Non-Profit Organization (NPO). NPO means any entity or organisation that is registered as a trust or a society under the Societies Registration Act, 1860 or any similar State legislation or a company registered under section 25 of the Companies Act, 1956.

b) HFC's should carefully go through all the reporting formats. There are altogether eight reporting formats, as detailed in Annex II, viz. i) Cash Transactions Report (CTR); ii) Summary of CTR iii) Electronic File Structure CTR; iv) Suspicious Transactions Report (STR); v) Electronic File Structure STR; vi) Counterfeit Currency Report (CCR); vii) Summary of CCR and viii) Electronic File Structure-CCR. The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND. It would be necessary for HFC's to initiate steps to ensure electronic filing of all types of reports to FIU-IND. The related hardware and technical requirement for preparing reports in an electronic format, the related data files and data structures thereof are furnished in the instructions part of the concerned formats. c) FIU-IND have placed on their website editable electronic utilities to enable HFC's to file electronic CTR/STR who are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data base. It is, therefore, advised that in cases of HFC's, where all the branches are not fully computerized, the Principal Officer of the HFC should cull out the transaction details from branches which are not yet computerized and suitably arrange 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 in their website http://fiuindia.gov.in.

24. Cash and Suspicious Transaction Reports

A. Cash Transaction Report (CTR)

While detailed instructions for filing all types of reports are given in the instructions part of the related formats, HFC's should scrupulously adhere to the following:
i) The Cash Transaction Report (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month. Cash transaction reporting by branches to their controlling offices should, therefore, invariably be submitted on monthly basis (not on fortnightly basis) and HFC's should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.
ii) All cash transactions, where forged or counterfeit Indian currency notes have been used as genuine should be reported by the Principal Officer to FIU-IND in the specified format not later than seven working days from the date of occurrence of such transactions (Counterfeit Currency Report – CCR). These cash transactions should also include transactions where forgery of valuable security or documents has taken place and may be reported to FIU-IND in plain text form.
iii) While filing CTR, details of individual transactions below Rupees Fifty thousand need not be furnished.
iv) CTR should contain only the transactions carried out by the HFC on behalf of their clients/customers excluding transactions between the internal accounts of the HFC.
v) A summary of cash transaction report for the HFC as a whole should be compiled by the Principal Officer of the HFC every month in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted to FIU-India. vi) In case of Cash Transaction Reports (CTR) compiled centrally by HFC's for the branches having Core HFC Solution (CBS) at their central data centre level, HFC's may generate centralised Cash Transaction Reports (CTR) in respect of branches under core HFC solution at one point for onward transmission to FIU-IND, provided:

a) The CTR is generated in the prescribed format;
b) A copy of the monthly CTR submitted on its behalf to FIU-India is available at the concerned branch for production to auditors/inspectors, when asked for; and
c) The instruction on 'Maintenance of records of transactions'; 'Information to be preserved' and 'Maintenance and Preservation of records' as contained this Circular.

However, in respect of branches not under CBS, the monthly CTR should continue to be compiled and forwarded by the branch to the Principal Officer for onward transmission to FIU-IND.

B. Suspicious Transaction Reports (STR)

i) While determining suspicious transactions, HFC's should be guided by definition of suspicious transaction contained in PMLA Rules as amended from time to time.
ii) It is likely that in some cases transactions are abandoned/aborted by customers on being asked to give some details or to provide documents. It is clarified that HFC's should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.
iii) HFC's should make STRs if they have reasonable ground to believe that the transaction involve proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002.
iv) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such report should be made available to the competent authorities on request.
v) In the context of creating KYC/AML awareness among the staff and for generating alerts for suspicious transactions, HFC's may consider the indicative list of suspicious activities.
vi) HFC's should not put any restrictions on operations in the accounts where an STR has been made. HFC's and their employees should keep the fact of furnishing of STR strictly confidential, as required under PML Rules. It should be ensured that there is no tipping off to the customer at any level.

C. Non-Profit Organisation

The report of all transactions involving receipts by non- profit organizations of value more than rupees ten lakh or its equivalent in foreign currency should be submitted every month to the Director, FIU-IND by 15th of the succeeding month in the prescribed format.

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

(a) The information in respect of the transactions referred to in clause(A), (B) and (BA) of sub-rule (1) of rule 3 of the PML Rules (i.e. clauses (1) , (2) and (3) referred to in Paragraph 19 supra) is to be submitted to the Director every month by the 15th day of the succeeding month.

(b) The information in respect of the transactions referred to in clause(C) of sub-rule (1) of rule 3 of the PML Rules (i.e. clause(4) in Paragraph 19 supra)is to be furnished promptly to the Director in writing, or by fax or by electronic mail not later than seven working days from the date of occurrence of such transaction.

(c) The information in respect of the transactions referred to in clause(D) of sub-rule (1) of rule 3 of the PML Rules (i.e. clause(5) in Paragraph 19 supra) is to be furnished promptly to the Director in writing, or by fax or by electronic mail not later than seven working days on being satisfied that transaction is suspicious.

Provided the housing finance company and its employees maintain strict confidentiality of the fact of furnishing/ reporting details of suspicious transactions.

25. It has been advised by the FIU-IND, New Delhi that HFCs need not submit 'NIL' reports in case there are no Cash/Suspicious Transactions, during a particular period. HFCs are advised to take note and act accordingly. (Vide Circular NHB/ND/DRS/Pol-No. 33/2010-11 dt.11/10/10)

26. The formats for reporting the requisite information in respect of cash transactions and suspicious transactions are enclosed (Annexures 3 to 10). An illustrative (but not exhaustive) list of suspicious transactions in housing/ builder/project loans is furnished in Annexure 11 for information of the HFCs.

27. The required information is to be furnished by the HFCs **directly** to the FIU-IND, through the Principal Officer designated by the housing finance company under the Prevention of Money Laundering Act, 2002.

General

28. HFCs should ensure that the provisions of PML, Rules framed thereunder and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

29. Where the HFC is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the HFC 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.

30. These guidelines are issued under the National Housing HFC Act and any contravention of or non-compliance with the same may attract penal consequences under the said Act.

31. As per PMLA rules notified by the Govt. on 27/08/13, every Bank/UCB/HFC shall nominate the Director on their Boards as a designated Director to ensure complaints with the obligations under the Prevention of Money Laundering Act (Amendment Act 2012). The designated Director has been defined under rule 2(1) (ba) as a person designated by the reporting entity to ensure overall compliance and includes the Managing Director or a whole time Director duly authorised by the Board. Under Rule 7 (1) of PML rules, every reporting entity should communicate to Director FIU IND, the name, designation and address of the designated Director. Currently, Managing Director is the only whole time Director in the Company and by default, he is the designated Director.

Annex-I

CUSTOMER IDENTIFICATION REQUIREMENTS - INDICATIVE GUIDELINES

Trust/Nominee or Fiduciary Accounts

1. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures. HFCs should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, HFCs may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, HFCs should take reasonable precautions to verify the identity of the trustees and the settlors of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/directors and the beneficiaries, if defined. If the HFC decides to accept such accounts in terms of the Customer Acceptance Policy, the HFC should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

Accounts of companies and firms

2. HFCs need to be vigilant against business entities being used by individuals as a ‘front’ for maintaining accounts with HFCs. HFC should verify the legal status of the legal person/ entity through proper and relevant documents. HFC should verify that any person purporting to act on behalf of the legal/ juridical person/entity is so authorized and identify and verify the identity of that person. HFCs should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception, e.g. in the case of a public company it will not be necessary to identify all the shareholders.

Client accounts opened by professional intermediaries

3. When the HFC has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. HFCs may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Where the HFCs rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It should be understood that the ultimate responsibility for knowing the customer lies with the HFC.

Accounts of Politically Exposed Persons (PEPs) resident outside India

4. Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. HFCs should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. HFCs should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level which should be clearly spelt out in Customer Acceptance Policy. HFCs should also subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.

Accounts of non-face-to-face customers

5. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the HFC may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.

Annex-II

CUSTOMER IDENTIFICATION PROCEDURE (CIP)
FEATURES TO BE VERIFIED AND DOCUMENTS THAT MAY BE OBTAINED FROM CUSTOMERS

S L No	**Features**	**Documents (Certified copy)**
1.	**Individuals** - Legal name and any other names used - Correct permanent address	(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving license (v) Identity card (subject to the HFC's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of HFC. (***vii) Job cards issued by NREGA duly signed by an Officer of the State Govt. (viii) the letter issued by Unique Identification Authority of India, containing the details name, address and Aadhar number or any other document as notified by the Central Govt.*** (i) Telephone bill (ii) HFC Account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the HFC) (any one document which provides customer information to the satisfaction of the HFC will suffice) One recent passport size photograph except in case of transactions referred to in Rule 9(1)(b) of the PML Rules.
2.	**Companies** - Name of the company - Principal place of business - Mailing address of the company - Telephone/Fax Number	(i) Certificate of incorporation (ii) Memorandum & Articles of Association (iii) Resolution from the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. (v) Telephone Bill.
3.	**Partnership Firms** - Legal name - Address - Names of all partners and their addresses - Telephone numbers of the firm and partners	(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses. (v) Telephone Bill in the name of firm/partners.
4.	**Trusts&** F**oundations** - Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers/directors and the beneficiaries - Telephone/fax numbers	(i) Certificate of registration, if registered(ii) trust deed (iii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses (iv) Resolution of the managing body of the foundation/association. (v) Telephone Bill.
5.	**Unincorporated association or a body of individuals**	(i)resolution of the managing body of such association or body of individuals (ii) power of attorney granted to him to transact on its behalf (iii) an officially valid document in respect of the person holding an attorney to

		transact on its behalf (iv) and such other information as may be required by HFC to collectively establish the legal existence of such as association or body of individuals.
6.	***Accounts of Proprietorship Concerns Proof of the name, address and activity of the concern***	***Registration certificate (in the case of a registered concern)*** ***● Certificate/licence issued by the Municipal authorities under Shop & Establishment Act,*** ***● Sales and income tax returns*** ***● CST/VAT certificate*** ***● Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities*** ***● Licence issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, registration/licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority/ Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank account etc.*** ***● The 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.*** ***● Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern.*** ***Any two of the above documents would suffice. These documents should be in the name of the proprietary concern***

'Officially valid document' is defined to mean the passport, the driving license, the permanent account number card, the Voter's Identity Card issued by the Election Commission of India or any other document as may be required by the HFC .

List of Annexures 3-10

MANUAL REPORTING FORMATS

1. MCTR (Manual Cash Transaction Report) for HFCs- Annex-3
2. MCTR(IDS)-Annexure-A (Manual Cash Transaction Report- Individual detail sheet for HFCs)- Annex-4
3. MCTR(LP/Entity-Details)-Annexure-B (Manual Cash Transaction Report- Legal Person/Entity detail sheet for HFCs)- Annex-5
4. MCTR(S) Summary of Manual Cash Transaction Reports for HFCs- Annex-6
5. MSTR (Manual Suspicious Transactions Report) for HFCs- Annex-7
6. MSTR(IDS)-Annex-A (Manual Suspicious Transactions Report- Individual detail sheet)- Annex-8
7. MSTR(LP/Entity-Details)-Annexure-B (Manual Suspicious Transaction Report-Legal persons/Entity)-Annex-9
8. MSTR(ADS)-Annexure-C (Manual Suspicious Transaction Report-Account Details Sheet)- Annex-10
9. Illustrative (but not exhaustive) list of suspicious transactions in housing/builder/project loans

(Now all the manual reporting formats have been dispensed with. All the Banks/HFC are required to submit the reports of CTR/STR/CCR/NTR through online. Hence the branches are required to provide the required data to the Inspection Dept. Registered Office, Bangalore, so as to enable them to submit the report to FIU IND through online. However, the branches shall continue to submit the CTR/STR in the prescribed format to RO Annexure)

II. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER/PROJECT LOANS:

a. Builder approaching the HFC for a small loan compared to the total cost of the project;
b. Builder is unable to explain the sources of funding for the project;
c. Approvals/sanctions from various authorities are proved to be fake;

Annex-11

I. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO HOUSING LOANS:

a. Customer is reluctant to provide information, data, documents;
b. Submission of false documents, data, purpose of loan, details of accounts;
c. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
d. Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
e. Approaches a branch/office of a HFC, which is away from the customer's residential or business address provided in the loan application, when there is HFC branch/office nearer to the given address;
f. Unable to explain or satisfy the numerous transfers in the statement of account/ multiple accounts;
g. Initial contribution made through unrelated third party accounts without proper justification;
h. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount;
i. Suggesting dubious means for the sanction of loan;
j. Where transactions do not make economic sense;
k. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
l. Encashment of loan amount by opening a fictitious HFC account;
m. 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;
n. Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
o. Multiple funding of the same property/dwelling unit;
p. Request for payment made in favour of a third party who has no relation to the transaction;
q. 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.
r. Multiple funding / financing involving NGO / Charitable Organisation / Small / Medium Establishments (SMEs) / Self Help Groups (SHGs) / Micro Finance Groups (MFGs)
s. Frequent requests for change of address;
t. Overpayment of instalments with a request to refund the overpaid amount