Know Your Customer and Anti-Money Laundering Policy ("KYC and AML Policy")

Can Fin Homes Limited, CIN: L85110KA1987PLC008699, **Registered Office-** No. 29/1, 1st Floor, M N Krishna Rao Road, Near Lalbagh West Gate, Basavanagudi, Bengaluru- 560 004 **E-mail:** compsec@canfinhomes.com
Tel: 080-26564259, 080-41261144 **Fax:** 080-26565746 **Website:** www.canfinhomes.com

Sl. No.	Particulars	Details
1.	Owner Department of the Policy	Credit Department
2.	Version No.	Version – 09
3.	Validity of the Policy	Till next revision
4.	Periodicity of Review	On annual basis
5.	Last Review Date	18-03-2023

Table of Contents

Can Fin Homes Ltd (Sponsor : CANARA BANK) HOME LOANS • DEPOSITS Translating Dreams into Reality

Process for Modification/Revision in KYC/AML Policy

Particulars	Details
Process for Modification/Revision in KYC/AML Policy	**Regulatory changes:** The Committee headed by Managing Director & Chief Executive Officer ("MD & CEO") shall have the authority to carry out the changes in the KYC and AML Policy on account of regulatory developments. Such changes to the KYC and AML Policy shall be subsequently placed before the Board of Directors through the Risk Management Committee of the Board (RMCB). **Other changes:** Any changes other than those emanating from the regulatory requirements shall be carried out with the approval of the Board of Directors of CFHL.

Omnibus Clause

All extant & future master circulars/directions/ guidelines/ guidance notes issued/ which may be issued by National Housing Bank **("NHB")**/ Reserve Bank of India **("RBI")** from time to time would be the guiding principles for the KYC and AML Policy of CFHL and shall supersede the contents of this KYC and AML Policy. This includes the following act, rules and the directions/ circulars:

Circular Ref. No.	Circular/ Act	Issue Date
DBR.AML.BC.No.81/14.01.001 /2015-16	The Reserve Bank of India {Know Your Customer (KYC)} Direction, 2016, as amended from time to time	February 25, 2016
DOR.FIN.HFC.CC.No.120/03.1 0.136/2020-21	The Non-Banking Financial Company- Housing Finance Company (Reserve Bank) Directions, 2021	February 17, 2021
ACT NO. 15 of 2003	Prevention of Money Laundering Act, 2002	July 1, 2005
-	Prevention of Money– Laundering (Maintenance of Records Rules), 2005 as amended from time to time	July 1, 2005

Know Your Customer and Anti-Money Laundering Policy

Preamble and Background

1. Can Fin Homes Ltd**., ("Company" or "CFHL")** has adopted "Know Your Customer (KYC) and Anti Money Laundering (AML) Policy" **("KYC and AML Policy" or "Policy")** for Lending/ Credit/ Deposits/ Operations/ Financial dealings, in line with the extant guidelines laid down in the 'Reserve Bank of India {Know Your Customer (KYC)} Direction, 2016' **("RBI KYC Directions")** issued and updated till January 04, 2024 by the Reserve Bank of India **("RBI").** The Policy is also in compliance with the PMLA and the PML Rules.

2. Money Laundering is a sophisticated act to cover up or camouflage the identity/ origin of illegally obtained earnings so that they appear to have been derived from lawful sources. It is the process by which illegal funds and assets are converted into legitimate funds and assets. It is the process through which proceeds emanating from a criminal activity are disguised to conceal their illicit origins and project as untainted.

   There are three common stages of money laundering as detailed below which are resorted to by the launderers:
   - **Placement-** The physical disposal of cash proceeds derived from illegal activity;
   - **Layering-** Separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and create anonymity; and
   - **Integration-** Creating the impression of apparent legitimacy to criminally derived wealth.

   The importance of prevention of Money Laundering has increased substantially in the past decade throughout the globe. Money Laundering poses a serious threat not only to the financial systems of countries, but also to the integrity and sovereignty of the nation. India's promising position as a financial centre, increased financial activities and cross border moneys flow makes the country exposed to money laundering.

   Accordingly, to curb the menace of money Laundering in India, the Prevention of Money Laundering Act, 2002 **("PMLA")** was enacted, which became effective from the year 2005. Under the PMLA, various rules called as 'Prevention of Money-Laundering (Maintenance of Records Rules), 2005' **("PML Rules")** have been notified for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the Reporting Entities **("REs").**

   As per the Section 3 of PMLA, the offence of Money Laundering is defined as: "Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property shall be guilty of offence of money- laundering." For this purpose, 'Proceeds of Crime' means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to scheduled offence or the value of any such property.

Objective

3. This Know Your Customer and Anti- Money Laundering Policy **("KYC & AML Policy")** sets out to standardize KYC documentation across CFHL and establish governing principles, broad guidelines, and standards to be adopted by the Company in order to protect itself from being used by any person to launder money.

4. The major objectives of this Policy are as under:

a. To lay standard operating procedures with respect to KYC norms and AML requirements.

b. To ensure all necessary Customer Identification Procedures **("CIP")** / Customer Due Diligence **("CDD")**/ Enhanced Due Diligence **("EDD")** measures are followed based on the risk factor associated with each Customer.

c. To protect the Company from being used intentionally or unintentionally by criminal elements for money laundering/ fraudulent/anti-social activities.

d. To enable the Company to know/understand their customers and their financial dealings better which, in turn, would help in managing the risks prudently.

e. To take appropriate action, once suspicious activities is detected, and make report to designated authorities in accordance with applicable law / laid down procedures.

f. To comply with applicable laws as well as norms adopted internationally with reference to Money Laundering.

5. The basic objective of the PMLA is three-fold, viz:

   a. To prevent, combat and control money laundering.
   b. To confiscate and seize the property obtained from the laundered money.
   c. To deal with any other issue connected with money laundering in India.

6. In terms of Section 13 of the PML Act, if the Director, FIU-IND, in the course of any inquiry, finds that a Company or its Designated Director on the Board or any of its employees of a banking companies, financial institutions and intermediaries has failed to comply with the obligations such REs are required to comply, then, without prejudice to any other action that may be taken under any other provisions of the PMLA, he may:

   i. Issue a warning in writing; or
   ii. Direct Company or its designated director on the Board or any of its employees, to comply with specific instructions; or
   iii. Direct Company or its Designated Director on the Board or any of its employees, to send reports at such interval as may be prescribed on the measures it is taking; or
   iv. By an order, levy a fine on Company, its Designated Director, officers and employees, which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

Scope and Effective Date

7. This KYC and AML policy is applicable to all the business/activities undertaken by CFHL across all Branches/Offices & shall be applicable for all new and existing customers of CFHL.

8. This Policy has become effective from the date of its initial approval by the Board and any subsequent amendments shall become effective from the date of approval of such amendment by the Competent Authority. This Policy shall supersede all previous versions of the KYC & AML Policy. All employees of CFHL are responsible for ensuring the effective implementation of this Policy.

Key Elements of KYC Policy

9. The KYC and AML Policy includes the following four key elements:

   a. Customer Acceptance Policy

b. Risk Management
c. Customer Identification Procedures (CIP) and
d. Monitoring of Transactions

Responsibilities for Compliance of the KYC and AML Policy

10. **The Board of Directors of the Company ("Board")** shall be responsible for the following:

    a. To review and approve the Policy as and when required.
    b. To appoint the Designated Director.
    c. To delegate any authority for review, approval and implementation of the Policy.

11. **The Audit Committee of the Board ("ACB")** shall be responsible for the following:

    a. To review audit findings and status of compliance with respect to the KYC and AML requirements.
    b. To review report on assessment of money laundering and terrorist financing risks.
    c. To guide the Company for managing money laundering and terrorist financing risks.

12. **The Senior Management of the Company** shall be responsible for the following:

    a. Implementation of the KYC and AML Policy and related procedures.
    b. Decision-making functions with respect to compliance with KYC norms are not outsourced.
    c. To verify the compliance with KYC/AML policies and procedures through Concurrent/internal audit system.
    d. Submission of quarterly audit notes and compliance to the Audit Committee

    For this purpose, "Senior Management Team" comprises of the Managing Director & Chief Executive Officer, Deputy Managing Director, General Manager, Chief Risk Officer, Chief Compliance Officer, Department Heads and such other officials that the MD & CEO may determine from time to time depending upon their functional roles and responsibilities.

13. **The Designated Director-** The Designated Director appointed by the Board of Directors shall be responsible for overall compliance with the obligations prescribed by the PMLA and the PML Rules. The Designated Director shall have the authority to consider, review, and approve various procedures required for the implementation of this Policy.

14. **The Principal Officer-** The Company shall designate one of its officials as the Principal Officer of the Company. The Principal Officer should have knowledge, sufficient independence, authority, time and resources to manage and mitigate the AML risks of the business. Key Responsibilities of the Principal Officer ("PO") shall be as under:

    a. The PO shall initiate amendments to the Policy based on latest applicable provisions of the PMLA, the PML Rules and RBI KYC Directions, as and when required.
    b. To ensure implementation of the KYC and AML policy and to consider, review and recommend various procedures which may be necessary for implementation of the Policy.
    c. The PO, with the assistance of relevant functions, shall put in place relevant procedures required for implementation of this Policy.
    d. To ensure reporting of transactions to the FIU-IND and/ or the RBI and sharing of the information as required under the applicable laws/ regulations.
    e. To ensure submission of periodical reports to the Board/ Risk Management Committee of the Board (RMCB).

15. **Employees-** The employees of the Company, while delivering their official responsibilities, shall be required to comply with this KYC and AML Policy and other procedures defined by the Company for implementation of the Policy.

16. **Agents/ Representative of the Company-** The Company's agents or persons authorized by it, for its business, shall be required to ensure adherence with the KYC and AML Policy. Such agents/ representatives shall make the information available to the RBI/ NHB to verify the compliance with the KYC and AML Policy/ requirement and accept full consequences of any violation by the persons authorized by the Company including agents etc. who are operating on its behalf.

Definition

17. The terms used and not defined in this Policy shall have the same meaning as have been assigned to them in the Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016, as amended from time to time.

17.1 **"Aadhaar Number"** is a 12-digit identification number issued to an individual by the Unique Identification Authority of India on behalf of Govt. of India (Shall have same meaning assigned to it / amended from time to time as per clause (a) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits & Services) Act, 2016 (18 of 2016)

17.2 **"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.

17.3 **"Authentication",** in the context of Aadhaar authentication, means the process as defined under sub-section (c) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016, as amended from time to time.

17.4 **"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 persons, 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 10 percent 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 shareholder's agreements or voting agreements.

b. Where the customer is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 10 percent of capital or profits of the partnership or who exercises control through other means.

Explanation - For the purpose of this sub-clause, "control" shall include the right to control the management or policy decision.

c. Where the customer is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 percent 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 10 percent 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.

17.5 **"Certified Copy"-** Obtaining a certified copy shall mean comparing the copy of the proof of possession of Aadhaar number where offline verification cannot be carried out or officially valid document so produced by the customer with the original and recording the same on the copy by the authorised officer as per the provisions contained in the Act. Provided that in case of Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs), as defined in Foreign Exchange Management (Deposit) Regulations, 2016 {FEMA 5(R)}, alternatively, the original certified copy, certified by any one of the following, may be obtained:

- Authorised officials of overseas branches of Scheduled Commercial Banks registered in India,
- Branches of overseas banks with whom Indian banks have relationships,
- Notary Public abroad,
- Court Magistrate,
- Judge,
- Indian Embassy/ Consulate General in the country where the customer resides.

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

17.7 **"Designated Director"** means Managing Director or a Whole-time Director, designated & duly authorized by the Board of Directors of the Company to ensure overall compliance with the obligations imposed under chapter IV of the PML Act.

Explanation - For the purpose of this clause, the terms "Managing Director" and "Whole-time Director" shall have the meaning assigned to them in the Companies Act, 2013.

17.8 **"Digital KYC"** means the capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the HFCs as per the provisions contained in the Act.

17.9 **"Digital Signature"** shall have the same meaning as assigned to it in clause (p) of sub-section (1) of section (2) of the Information Technology Act, 2000 (21 of 2000).

17.10 **"Equivalent e-document"** means an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

17.11 **"Group"-** The term "group" shall have the same meaning assigned to it in clause (e) of sub-section (9) of section 286 of the Income-tax Act,1961 (43 of 1961).

17.12 **"Know Your Client (KYC) Identifier"** means the unique number or code assigned to a customer by the Central KYC Records Registry.

17.13 **"Non-profit organisations" (NPO)** means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), 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 8 of the Companies Act, 2013 (18 of 2013).

17.14 **"Officially Valid Document" (OVD)** means the Passport, the Driving Licence, Proof of Possession of Aadhaar Number, the Voter's Identity Card issued by the Election Commission of India, Job Card issued by NREGA duly signed by an officer of the State Government and letter issued by the National Population Register containing details of name and address.

Provided that,

a. Where the customer submits his proof of possession of Aadhaar number as an OVD, he may submit it in such form as are issued by the Unique Identification Authority of India.
b. Where the OVD furnished by the customer does not have updated address, the following documents or the equivalent e-documents thereof 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 Government Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and licence agreements with such employers allotting official accommodation;

c. The customer shall submit OVD with current address within a period of three months of submitting the documents specified at 'b' above.

d. Where the OVD presented 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.

Explanation: For the purpose of this clause, a document shall be deemed to be an OVD even if there is a change in the name subsequent to its issuance provided it is supported by a marriage certificate issued by the State Government or Gazette notification, indicating such a change of name.

17.15 **"Offline verification"** shall have the same meaning as assigned to it in clause (pa) of section 2 of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 (18 of 2016).

17.16 **"Person"** has the same meaning assigned 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 any one 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).

17.17 **"Principal Officer"** means an officer at the management level nominated by the Company responsible for furnishing information as per rule 8 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 as amended from time to time

17.18 **"Suspicious transaction"** means a "transaction" as defined below, including an attempted transaction, whether or not made in cash, which, to a person acting in good faith:

a. Gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
b. Appears to be made in circumstances of unusual or unjustified complexity; or
c. Appears to not have economic rationale or bona-fide purpose; or
d. Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Explanation: Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organization or those who finance or are attempting to finance terrorism.

17.19 **"Common Reporting Standards" (CRS)** means reporting standards set for implementation of multilateral agreement signed to automatically exchange information based on Article 6 of the Convention on Mutual Administrative Assistance in Tax Matters.

17.20 **"Customer"** – For the purpose of KYC policy, a "Customer" may be defined as:

a. A person or entity that maintains an account and/or has a business relationship (engaged in financial transaction/activity) with the CFHL;
b. One on whose behalf the account is maintained (i.e. the beneficial owner);
c. Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors, etc. as permitted under the law, and
d. Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the CFHL, say, a wire transfer or issue of a high value demand draft as a single transaction.
e. The DSA's/ Panel Advocates/ Valuers/ Professionals and other third party entities engaged by the Company in the course of business.

17.21 **"Customer Due Diligence (CDD)"** means identifying and verifying the customer and the beneficial owner using reliable and independent sources of identification.

Explanation- The CDD, at the time of commencement of an account-based relationship or while carrying out occasional 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 any international money transfer operations, shall include:

a. Identification of the customer, verification of their identity using reliable and independent sources of identification, obtaining information on the purpose and intended nature of the business relationship, where applicable;
b. Taking reasonable steps to understand the nature of the customer's business, and its ownership and control;
c. Determining whether a customer is acting on behalf of a beneficial owner, and identifying the beneficial owner and taking all steps to verify the identity of the beneficial owner, using reliable and independent sources of identification.

17.22 **"Customer identification"** means undertaking the process of CDD.

17.23 **"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.

17.24 **"IGA"** means Inter Governmental Agreement between the Governments of India and the USA to improve international tax compliance and to implement FATCA of the USA.

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

17.26 **"Non-face-to-face customers"** means customers who open accounts without visiting the branch/offices or meeting the branch/office officials.

17.27 **"On-going Due Diligence"** means regular monitoring of transactions in accounts to ensure that those are consistent with Company's knowledge about the customers, customers' business and risk profile, the source of funds / wealth.

17.28 "**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 Reserve Bank.

Appointment of Principal Officer and Designated Director

18. **Designated Director:** The Company has nominated the Managing Director, on the Board of the company as a Designated Director, as required under the provisions of the PML Rules, 2005 to ensure compliance with the obligations under the Act and Rules. The Designated Director shall oversee the compliance position of AML norms in the Company.

    The name, designation and address of the Designated Director shall be communicated to the FIU-IND. Further, the name, designation, address and contact details of the Designated Director shall also be communicated to the RBI/ NHB. In no case, the Principal Officer shall be nominated as the 'Designated Director'.

19. **Principal Officer:** The Managing Director shall have authority to appoint a senior management officer, preferably of the level of General Manager/ Deputy General Manager as 'Principal Officer'. The name of the Principal Officer so designated, his designation and address including changes from time to time, shall be communicated to the Director, FIU-IND & also be communicated to the RBI. Principal Officer shall be located at the head/corporate office of the Company and shall be responsible for ensuring compliance, 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.

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.

The Principal Officer shall be the competent authority for fixing the thresholds for generation of AML alerts and the periodicity of reviewing the alerts shall be once in a year or as and when required.

Customer Acceptance Policy

20. CFHL shall ensure that:

a. No account is opened/ loan granted or services are utilized in anonymous or fictitious/benami name(s);

b. No account is opened/ loan granted or services are utilized where CFHL is unable to apply appropriate Customer Due Diligence (CDD) measures as defined as in this policy, either due to non-cooperation of the customer or non-reliability of the documents/ information furnished by the customer. Such instances shall be considered for filing an STR, if considered necessary, when relevant CDD measures pertaining to the customer could not be complied with.

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. If any, additional information is sought for KYC purpose and is not specified in the policy, it should be ensured that same are obtained with the explicit consent of the customer

f. A Unique Customer Identification Code (UCIC) shall be allotted while entering into new relationships with customers (individual as well as non-individuals) as also the existing customers. CDD Procedure is followed at UCIC level for all the customers including borrowers, co-borrowers, guarantors, beneficial owners. If an existing KYC compliant customer of CFHL desires to avail another financial product of CFHL, no fresh KYC needs to be done for such Customer, provided such Customer is an existing Customer of CFHL as on the date of availing the fresh facility, viz. the previous loan facility is in force and subsisting. However, in such cases it must be ensured that all the KYC details of the customer are available in the respective Customer files and other necessary due diligence, wherever required, is carried out.

g. Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out.

h. 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 indicated in Chapter IX on Requirements/ obligations under International Agreements - Communications from International Agencies of the RBI KYC Directions.

i. Permanent Account Number (PAN) shall be verified from the NSDL verification facility.

j. Where an equivalent e-document is obtained from the customer, CFHL shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000).

k. Where Goods and Services Tax (GST) details are available, the GST number shall be verified from the search/verification facility of the issuing authority.

l. Where, CFHL forms a suspicion of money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the customer, it shall not pursue the CDD process, and instead file a suspicious transaction report **("STR")** with FIU-IND.

Note - It is important to note that the adoption of Customer Acceptance Policy and its implementation should not become too restrictive and must not result in denial of CFHL services to public, especially to those, who are financially or socially disadvantaged.

Risk Management

21. Customers shall be categorised based on their KYC risk assessment and risk perception of CFHL. Broad principles have been laid down below for KYC risk-categorisation of customers. The risk categorisation of a customer and the specific reasons for such categorisation shall be kept confidential and shall not be revealed to the customer to avoid tipping off the customer.

CFHL shall prepare a risk categorization for each new customer & existing customers based on the parameters such as customer's identity, social/financial status, nature of business activity, information about his clients' business and their location, geographical risk covering customers as well as transactions, type of products, service offered, delivery of products/services, type of transaction undertaken cash, cheque/monetary instruments, wire transfers, forex transactions, etc

The nature and extent of due diligence will depend on the risk perceived by the CFHL. However, while preparing customer profile CFHL 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 by NHB/ RBI in this regard. Any other information from the customer will be sought separately with his/her consent. 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.

22. **Risk Categorisation**

CFHL will classify its customers based on the below mentioned risk categories as defined by the RBI from time to time. The indicative list of Customer 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, Employees 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, Purdahnashin ladies and Unregistered bodies.

c. **High Risk:** Customer conducting their Business or Transactions in unusual circumstances, customer based in High Risk Countries, Politically Exposed Persons, Non-resident Customers and Foreign nationals, High net worth Individuals, Firms with Sleeping Partners, Companies 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, Non-face to face Customers and HUF's.

Customer Identification Procedure (CIP)

23. **Customer identification** means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information while establishing a relationship. CFHL will obtain information stated below necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Being satisfied means that CFHL must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer.

23.1 The primary objectives of CIP are:

a. To verify the legal status of the customer/ entity through proper and relevant documents.

b. To verify that any person purporting to act on behalf of the customer, legal person/entity is so authorized and to verify the identity of such an authorized person.

c. To understand the ownership and control structure of the customer and determine who is the natural persons who ultimately has control over the management.

23.2 The CIP shall be undertaken in the following cases:

a. At the time of commencement of an account-based relationship with the Loan/Deposit Customers.

b. At the time of commencement of services from business associates (Direct Selling Agents/Deposit Agents/Advocates/Valuers/Field verification agencies etc.,)

c. When there is a doubt about the authenticity or adequacy of the customer identification data.

d. At the time of Selling third party products as agents, selling our own products and any other product for more than INR 50,000 (Rupees Fifty Thousand).

e. Introduction shall not be sought while opening account.

23.3 For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, CFHL, may rely on customer due diligence 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 immediately from the third party or from the Central KYC Records Registry.

b. Adequate steps are taken by CFHL to satisfy itself 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 PML Act.

d. The third party shall not be based in a country or jurisdiction assessed as high risk.

e. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with CFHL.

Customer Due Diligence (CDD)

24. **Customer Due Diligence ("CDD")** means identifying and verifying the customer and the beneficial owner using reliable and independent sources of identification.

25. **Policy Guidelines for CDD if the Customer is an Individual -** The policy norms defined in this paragraph shall be applicable to an individual if he/ she is a customer or is a beneficial owner or an authorized signatory/ power of attorney holder on behalf of a legal entity, proposed as the customer.

25.1 For CDD of an individual, the Company shall carry-out the following activities:

a. Photograph to be obtained- One self-attested recent photograph of the customer to be obtained along with the application form.

b. Permanent Account Number ("PAN")- PAN or the equivalent e-document thereof shall be obtained. If PAN has not been obtained by the customer, then Form No. 60 as defined in Income-tax Rules, 1962 shall be taken.

c. Officially Valid Documents ("OVD" or "KYC documents"), as defined above in this Policy, to be obtained- In addition to the above, certified copy of one of the OVDs or the equivalent e-document thereof or one of the following shall be taken for verification of the identity and the address:

i. The Aadhaar Number where:

- If customer is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act; or
- If customer decides to submit his Aadhaar number voluntarily to the Company, provided the Company notified under first proviso to sub-section (1) of Section 11A of the PMLA for e-KYC authentication facility provided by the UIDAI.

ii. Proof of Possession of Aadhaar number where offline verification can be carried out; or

iii. Proof of possession of Aadhaar number where offline verification cannot be carried out or any OVD or the equivalent e-document thereof containing the details of his identity and address; or

iv. If a customer submits a KYC Identifier to the Company, with an explicit consent to download records from CKYCR, then the Company shall retrieve the KYC records from the CKYCR using the KYC Identifier and the customer shall not be required to submit the same KYC records or information or any other additional identification documents or details, unless:

- there is change in the information of the customer vis-à-vis that existing in the records of CKYCR; or
- the current address of the customer is required to be verified; or
- the respective credit approving authority of the Company considers it necessary in order to verify the identity or address of the customer, or to perform enhanced due diligence or to build an appropriate risk profile of the customer; or
- the validity period of documents downloaded from the CKYCR has lapsed.

d. Other requirements to be complied while conducting CDD of an individual

i. Aadhaar number may specifically be obtained in the following scenarios:

- If customer is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act; or
- If a customer decides to submit his Aadhaar number voluntarily to the Company, provided the Company is notified under first proviso to sub-section (1) of Section 11A of the PMLA for e-KYC authentication facility provided by the UIDAI.

ii. Authentication using e-KYC authentication facility provided by the UIDAI- As and when the Company is authorized to conduct authorization through e-KYC authentication facility provided by the UIDAI (under first proviso to sub-section (1) of Section 11A of the PMLA), it may conduct such authorization and use the e-KYC facility in accordance with the conditions prescribed under the Aadhaar Act/ RBI KYC Directions. Further, in such a case, if a customer wants to provide a current address, different from the address as per the identity information available in Central Identities Data Repository of the UIDAI, he shall provide a self-declaration to that effect to the Company.

iii. If the customer submits his/ her Aadhaar number, the Company will ensure such customer to redact or blackout his/ her Aadhaar number where the authentication of Aadhaar number is not required under Section 7 of the Aadhaar Act.

iv. The use of Aadhaar, proof of possession of Aadhaar etc. shall be in accordance with the Aadhaar Act and other applicable regulations/ rules.

v. In case proof of possession of the Aadhaar has been submitted by a customer, the Company shall carry out offline verification wherever possible.

vi. Where a customer has submitted an equivalent e-document of any OVD, the Company shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000) and take a live photo as specified under the Digital KYC Process as specified below.

vii. Where a customer submits any OVD or proof of possession of Aadhaar number and its offline verification of such OVD/ proof of possession of Aadhaar cannot be carried out, the Company shall have option to carry-out verification through the process prescribed for Digital KYC Process in the subsequent paragraph.

26. Policy Norms for CDD of a Sole Proprietary firm as the Customer:

26.1 CDD of the Proprietor- For opening an account in the name of a sole proprietary firm, CDD of the individual (proprietor) should be carried out as per the above policy guidelines applicable for CDD of an individual.

26.2 Proof of Business/activity for the firm- 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 including Udyam Registration Certificate (URC) issued by the Government.
b. Certificate/ License issued by the municipal authorities under Shop and Establishment Act.
c. Sales and Income Tax Returns.
d. GST/ CST/ VAT certificate.
e. Certificate/ Registration document issued by Sales Tax/ Service Tax/ Professional Tax authorities.

f. License/ Certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute.
g. Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax authorities.
h. Utility bills such as electricity, water, landline telephone bills etc.

Provided, in cases where the Company is satisfied that it is not possible to furnish two such documents as mentioned above, it may accept only one of those documents as proof of business/ activity, subject to contact point verification and collection of such other information and clarification as would be required to establish the existence of such firm. Further, it should be satisfied that the business activity has been verified from the address of the proprietary concern.

27. **Policy Norms for CDD of a Company as the Customer:** A company as a customer shall be required to submit certified copies of the following documents/ information:

a. Certificate of incorporation.
b. Memorandum and Articles of Association.
c. PAN of the applicant company.
d. A resolution from the Board of Directors of the applicant company and power of attorney/ authority granted to its managers, officers or employees to transact on its behalf.
e. KYC Documents, as per the above policy guidelines applicable for CDD of an individual, with respect to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the applicant company's behalf, for a transaction with the Company.
f. Names of the relevant persons holding senior management position.
g. Registered office and the principal place of its business, if it is different.

28. **Policy Norms for CDD of a Partnership Firm as the Customer:** A partnership firm as a customer shall be required to submit certified copies of the following documents:

a. Registration Certificate, if the deed is registered; or Certificate of Incorporation issued by the Registrar of Companies.
b. Partnership Deed, or LLP Agreement between the partners or between the LLP and its partners.
c. Permanent Account Number of the partnership firm.
d. KYC Documents, as per the above policy guidelines applicable for CDD of an individual, with respect to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the firm's behalf, for transaction with the Company.
e. Partnership Declaration signed by all the partners (all pages should be on the letterhead and should be signed by all the partners).
f. List of Partners along with capital/profit percentage (to be signed by all partners).
g. The names of all the partners and address of the registered office.
h. The principal place of its business, if it is different.

29. **Policy Norms for CDD of a Trust as the Customer:** A trust as a customer shall be required to submit certified copies of the following documents:

a. Registration Certificate.
b. Trust Deed.
c. Permanent Account Number or Form No.60 of the trust.
d. KYC Documents, as per the above policy guidelines applicable for CDD of an individual, with respect to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the trust's behalf, for a transaction with the Company.
e. The names of the beneficiaries, trustees, settlor, protector, if any, and authors of the trust.

f. The address of the registered office of the trust.
g. The list of trustees and documents, as applicable to an individual, for those discharging the role as trustee and authorised to transact on behalf of the trust.
h. Further, the Company shall ensure that trustees disclose their status at the time of commencement of an account-based relationship or when carrying out transactions.

30. **If a customer is an unincorporated association (unregistered trusts/ partnership firms etc.) or a body of individuals (societies etc.), it shall be required to submit certified copies of the following documents:**

a. Resolution of the managing body of such association or body of individuals.
b. Power of attorney granted to him to transact on its behalf.
c. Permanent Account Number or Form No. 60 of the unincorporated association or a body of individuals.
d. Documents, as applicable to an individual, with respect to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the entity's behalf, for transaction with the Company.
e. Such other information as may be deemed fit by the credit approving authority of the Company 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'.

Explanation: Term 'body of individuals' includes societies.

31. **Policy Norms for opening accounts of a customer who is juridical person (not specifically covered in the earlier part), such as societies, universities and local bodies like village panchayats, etc., or who purports to act on behalf of such juridical person or individual or trust, certified copies of the following documents shall be obtained and verified:**

a. Document showing name of the person authorised to act on behalf of the entity;
b. KYC Documents, as per the above policy guidelines applicable for CDD of an individual, with respect to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the entity's behalf, for transaction with the Company; and
c. Such documents as may be deemed fit by the respective credit approving authority of the Company to establish the legal existence of such an entity/ juridical person.

32. **Identification of Beneficial Owner:** For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps to verify his/ her identity shall be undertaken while considering the following aspects:

a. Where the customer or the owner of the controlling interest is one of the following:

i. an entity listed on a stock exchange in India, or
ii. it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions, or
iii. it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.

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.

33. **Reliance on Customer Due Diligence done by a Third Party:** For verifying the identity of customers before establishing an account-based relationship, the Company may also rely on the CDD by a third party, only if the following conditions are met:

    a. 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 PMLA.
    b. Records or the information of the customer due diligence carried out by the third party is obtained immediately from the third party or from the CKYCR.
    c. 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.
    d. The third party shall not be based in a country or jurisdiction assessed as high risk.
    e. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the Company.

34. **Validity of KYC Due Diligence done by the Company:** KYC verification if done once by one branch/ office of the Company shall be valid for its any other branch/ office, provided complete KYC verification has already been done for the concerned account and the same is not due for periodic updation.

35. **Video based Customer Identification Process ("V-CIP") and Digital KYC:** For Video based Customer Identification Process **("V-CIP")** and Digital KYC, whenever the Company carried-out the same, the Company shall ensure compliance with the provisions prescribed in the RBI KYC Directions.

Enhanced Due Diligence (EDD)

36. **Enhanced Due Diligence for High Risk Customers:** The Company, for its high-risk customers, shall conduct risk based Enhanced Due Diligence ("EDD") in addition to the CDD. Any business relationship with a high risk customer shall require approval from an authority at senior level. Further, any suspicious triggers relating to high risk customer's transactions shall be reviewed more rigorously.

    For high risk customers, as part of the EDD measures, the Company shall collect additional information and documentation regarding the following if already not collected as part of CDD:

    i. Purpose of the account/ end-use.
    ii. Source of income/ funds.
    iii. Assessment of income/ financial statements/ repayment capacity of and banking statements.
    iv. Diligence regarding the customer's employment and business activities wherever applicable.
    v. Due diligence of the individuals with ownership or control over the account, such as beneficial owners, signatories, or guarantors, if any.

    Further, as part of the EDD procedures, the Company shall follow a system of periodic updation of KYC information for various categories of the customers as prescribed in this Policy.

    EDD is an ongoing process, and the Company should take measures to ensure that information is updated as required and that appropriate risk-based monitoring occurs to ensure that any suspicious activity is escalated, analyzed and reported, as prescribed in the Policy.

37. **EDD in case of Non-face-to-face customer on boarding:** Non-face-to-face on boarding would include customer on boarding without meeting the customer physically. Non-face-to-face would include use of digital channels such as CKYCR, Digi Locker, equivalent e-document, etc., and

non-digital modes such as obtaining copy of OVD certified by additional certifying authorities as allowed for NRIs and PIOs, where there is no physical interaction with the customer.

Following EDD measures shall be undertaken by CFHL if it on-boards non-face-to-face customer:

a. In order to prevent frauds, alternate mobile numbers shall not be linked post CDD with such accounts for transaction OTP, transaction updates, etc. Transactions shall be permitted only from the mobile number used for account opening. Following due diligence process shall be put in place for dealing with requests for change of registered mobile number:

   i. The customer shall send a request through email-id registered with CFHL for the mobile number updation along with self-attested Aadhaar copy/latest Bank account statement (Necessarily, PSU Bank) having updated mobile number.

   or

   ii. The customer shall visit the branch and submits the request letter with the above referred documents.

   iii. After verification of customer's request & documents, Branch Incharge shall permit for change of registered mobile number.

b. Apart from obtaining the current address proof, shall verify the current address through positive confirmation such as address verification letter, contact point verification, deliverables, etc. before disbursement of the loan.

c. PAN shall be mandatory in such cases and it shall be verified from the verification facility of the issuing authority.

d. CFHL shall ensure that the first payment is effected through the customer's KYC-complied account.

e. Such customers shall be categorized as high-risk customers and accounts opened in non-face to face mode shall be subjected to enhanced monitoring until the identity of the customer is verified in face-to- face manner.

38. **Accounts of Politically Exposed Persons (PEPs):** "Politically Exposed Persons" (PEPs) are individuals who are or have been entrusted with prominent public functions by a foreign country, including the Heads of States/Governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials.

CFHL may establish a relationship with PEPs or with family members or close associates of PEP either as customers or as Beneficial Owners provided that apart from performing normal customer due diligence:

i. Sufficient information including information about the sources of funds/ wealth, accounts of family members and close relatives is gathered on the PEP.
ii. The identity of the person shall have been verified before accepting the PEP as a customer.
iii. For any lending/ business relationship with PEP or with family members or close associates of PEP, formal approval from the Head of RO-Credit Department has been obtained.
iv. All such accounts are subjected to enhanced monitoring on an on-going basis.
v. In the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, approval from Head of RO-Credit Department shall be obtained to continue the business relationship.
vi. All PEP accounts would be classified as 'High Risk' accounts and will be subject to enhanced monitoring on-going basis.

On-going Due Diligence and Periodic updation of KYC

39. **On-going Due Diligence:** CFHL shall undertake on-going due diligence of customers to ensure that their transactions are consistent with their knowledge about the customers, customers' business and risk profile and the source of funds/ wealth.

    Without prejudice to the generality of factors that call for close monitoring following types of transactions shall necessarily be monitored:

    a. Large and complex transactions including RTGS transactions, and those with unusual patterns, inconsistent with the normal and expected activity of the customer, which have no apparent economic rationale or visible lawful purpose.

    b. Transactions which exceed the thresholds prescribed for specific categories of accounts.

    For ongoing due diligence, CFHL may consider adopting appropriate innovations including artificial intelligence and machine learning (AI & ML) technologies to support effective monitoring. The extent of monitoring shall be aligned with the risk category of the customer. High risk accounts have to be subjected to more intensified monitoring.

    A system of periodic review of risk categorisation of accounts at least once in six months, and the need for applying enhanced due diligence measures shall be put in place. CFHL shall ensure to provide acknowledgment with date of having performed KYC updation. The time limits prescribed above would apply from the date of opening of the account/ last verification of KYC.

    The risk categorisation of a customer and the specific reasons for such categorisation shall be kept confidential and shall not be revealed to the customer to avoid tipping off the customer

40. **Periodic updation of KYC –** Company shall adopt a risk-based approach for periodic updation of KYC ensuring that the information or data collected under CDD is kept up-to-date and relevant, particularly where there is high risk. 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 from the date of opening of the account/last KYC updation as per the following procedure:

    40.1 For Individual Customers:

    a. **No change in KYC information:** In case of no change in the KYC information, a self-declaration from the customer in this regard shall be obtained through customer's email-id registered with CFHL, customer's mobile number registered with CFHL, digital channels, letter etc.

    b. **Change in address:** In case of a change only in the address details of the customer, a self-declaration of the new address shall be obtained from the customer through customer's email-id registered with CFHL, customer's mobile number registered with CFHL, digital channels, letter etc., and the declared address shall be verified through positive confirmation within two months, by means such as address verification letter, contact point verification, deliverables or such other methods as may be deemed appropriate. Further, CFHL shall obtain a copy of OVD or deemed OVD or the equivalent e-documents thereof, for the purpose of proof of address, declared by the customer at the time of periodic updation.

    c. **Customers, who were minor at the time of opening account, on their becoming major:** In case of customers for whom account was opened when they were minor, fresh photographs shall be obtained on their becoming a major and at that time it shall be ensured that CDD documents as per the current CDD standards are available with the CFHL. Wherever required, CFHL shall carry out fresh KYC of such customers i.e., customers for whom account was opened when they were minor, on their becoming a major.

Aadhaar OTP based e-KYC in non-face to face mode may be used for periodic updation. To clarify, conditions stipulated under enhanced due diligence are not applicable in case of updation / periodic updation of KYC through Aadhaar OTP based e-KYC in non-face to face mode.

Declaration of current address, if the current address is different from the address in Aadhaar, shall not require positive confirmation in this case. CFHL shall ensure that the mobile number for Aadhaar authentication is same as the one available with them in the customer's profile, in order to prevent any fraud.

40.2 Customers other than individuals:

a. **No change in KYC information:** In case of no change in the KYC information of the customer being a non-individual entity, a self-declaration in this regard shall be obtained from the non-individual entity through its email-id registered with CFHL, digital channels, letter from an official authorized by the non-individual entity in this regard, board resolution etc. Further, CFHL shall ensure during this process that Beneficial Ownership information available with CFHL is accurate and updated at the time of periodic updation.

b. **Change in KYC information:** In case of change in KYC information, CFHL shall undertake the KYC process equivalent to that applicable for on-boarding a new non-individual customer.

40.3 Additional measures: In addition to the above, CFHL shall ensure that,

i. The KYC documents of the customer as per the current requirements under this Policy are available. This is applicable even if there is no change in customer information but the documents available with CFHL are not as per the current requirements. Further, in case the validity of the KYC documents available with CFHL has expired, CFHL shall undertake the KYC process equivalent to that applicable for on-boarding a new customer.

ii. Customer's PAN details, wherever available, is verified from the database of the issuing authority.

iii. An acknowledgment is provided to the customer mentioning the date of receipt of the relevant document(s), including self-declaration from the customer. Further, it shall be ensured that the information/documents obtained from the customers are promptly updated in the records/database of CFHL and an intimation, mentioning the date of updation of KYC details, is provided to the customer.

iv. Adverse actions against the customers should be avoided, unless warranted by specific regulatory requirements.

v. Company shall ensure periodic updation of KYC from any of the Branch/Office of the Company, preferably from the Branch where the loan account/deposit account is maintained.

vi. CFHL shall advise the customers that in compliance with the Act and Rules, in case of any update in the documents submitted to CFHL at the time of establishment of business relationship / account-based relationship and thereafter, the customer shall submit to CFHL the updated documents within a period of 30 days from the date of such update.

Maintenance & Preservation of Records of Transactions

41. The Company shall continue the system of maintaining proper record of transactions as specified 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:

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

    CFHL shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

    Further, CFHL shall maintain records of the identity and address of their customer and records in respect of transactions referred in Rule 3 in hard or soft format.

42. **Periodicity for Retention of Records:**

    a. Records of all transactions, including information relating to transactions, whether attempted or executed, the nature and value of which may be prescribed shall be maintained for a period of 5 years from the date of transaction between the Customer and the Company.
    b. Records of documents pertaining to the identification of the Customers including Beneficial Owners & their addresses obtained while opening the account and during the course of business relationship to be maintained for a period of five years after the business relationship has ended or the account has been closed, whichever is later.

43. CFHL shall ensure that in case of customers who are non-profit organisations, the details of such customers are registered on the DARPAN Portal of NITI Aayog. If the same are not registered, CFHL shall register the details on the DARPAN Portal. CFHL shall also maintain such registration records for a period of five years after the business relationship between the customer and the CFHL has ended or the account has been closed, whichever is later.

Monitoring and Reporting to Financial Intelligence Unit - India

44. The Company shall undertake on-going due diligence of customers to ensure that their transactions are consistent with its knowledge about its customers, their business/ employment and risk profile, and source of funds/ wealth. The Company shall pay special attention to complex, and unusual transactions/ patterns which have no apparent economic or visible lawful purpose, or transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer.

45. **Monitoring of Transactions:** The Company shall monitor customers' transactions to identify the following triggers:

    a. Cash repayments above certain thresholds.
    b. Complex transactions with unusual patterns, inconsistent with the normal and expected activity of the customer, which have no apparent economic rationale or legitimate purpose.
    c. Loan closure within very short time-period of availing the loan.
    d. Frequent prepayments above some thresholds not consistent with the customer's repayment capacity.
    e. Frequent cash repayments.

46. **Reporting of Transactions:** The Act and the Rules have directed the Principal Officer to monitor & report all cash transactions, counterfeit transactions and suspicious transactions to the Financial Intelligence Unit (FIU-IND). The types of transactions to be reported and the manner of reporting shall be done as detailed hereunder.

46.1 Cash Transactions Reporting ("CTR") - All Cash transactions amounting to Rs. 10 lacs and above in a month by a single client would be monitored for reporting a transaction as CTR. The following types of transactions shall be reported to FIU-IND as CTR:

a. All cash transactions of the value of Rs. 10 lacs or more or its equivalent in foreign currency and above.
b. All series of cash transactions integrally connected to each other which have been individually valued below Rs. 10 lacs where such series of transactions have taken place within a month and the monthly aggregate exceeds Rs. 10 lacs.
c. All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place.

Explanation: For determining integrally connected cash transactions, the Company shall take into account all individual cash transactions in an account during a calendar month which in aggregate exceed Rs.10 lacs during the month. However, while filing CTR, details of individual cash transactions below Rs. 50,000/- may not be indicated.

46.2 Suspicious Transactions Reporting ("STR") - Suspicions transaction means a transaction, including an attempted transaction, whether or not made in cash which, to a person acting in good faith:

a. Gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
b. Appears to be made in circumstances of unusual or unjustified complexity; or appears to have no economic rationale or bonafide purpose; or
c. Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Suspicious transactions are financial transactions that one would have reasonable grounds to suspect are related to the commission of a money laundering offence, given normal business and industry practice and one's knowledge of the client.

CFHL shall develop and implement appropriate methods of monitoring so that during the period of association with the customer, suspicious customer activity can be detected, appropriate action can be taken, and reports can be made if called for by government/regulatory authorities in accordance with applicable law and laid down procedures.

An assessment of suspicion should be based on a reasonable evaluation of relevant factors, including the knowledge of the customer's business, financial history, background, and behaviour.

CFHL shall not put any restriction on operations in the accounts merely on the basis of STR filed. Further, CFHL shall report all attempted transactions of customers reported in STRs; even though transactions are incomplete and are of any amount. CFHL shall keep the fact of furnishing of STR strictly confidential and shall be ensured that there is no tipping off to the customer at any level.

CFHL may consider filing an STR, if necessary, when it is unable to comply with the relevant CDD measures in relation to the customer either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer.

Software throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers shall be put in to use as a part of effective identification and reporting of suspicious transactions.

46.3 Timeline and Guidelines on Furnishing of information to the Director, FIU-IND:

a. In terms of the provisions of the Rule 8 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, CFHL 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 PML Rules.

b. The Company shall file the CTR which for a month should reach the FIU-IND by 15th day of the succeeding month.

c. The Company shall file the STR to the FIU-IND 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.

d. The Principal Officer will be responsible for submission of CTR & STR to FIU-IND in formats prescribed by FIU-IND. A copy of information furnished shall be retained by the 'Principal Officer' for the purposes of official record.

e. The reporting formats and comprehensive reporting format guide, prescribed/released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist in the preparation of prescribed reports shall be taken note of. The editable electronic utilities to file electronic Cash Transaction Reports (CTR)/ Counterfeit Currency Reports (CCR)/ Suspicious Transaction Reports (STR) which the FIU-IND has placed on its portal shall be made use of by CFHL, since it is yet to install/ adopt suitable technological tools for extracting CTR/STR from live transaction data.

f. 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 misrepresented transaction beyond the time limit as specified in the said Rules shall be constituted as a separate violation.

Screening and Requirements/Obligations under International Agreements

47. Obligations under the Unlawful Activities (Prevention) (UAPA) Act, 1967:

47.1 CFHL shall ensure adherence to provisions of Section 51A of the Unlawful Activities (Prevention) (UAPA) Act, 1967 and amendments thereto.

CFHL shall take measures to ensure that there is no account/relationship opened/established in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC). The details of the two lists are as under:

a. The "ISIL (Da'esh) & Al-Qaida Sanctions List", established and maintained pursuant to Security Council resolutions 1267/1989/2253, which includes names of individuals and entities associated with the Al-Qaida.

b. The "Taliban Sanctions List", established and maintained pursuant to Security Council resolution 1988 (2011), which includes names of individuals and entities associated with the Taliban.

CFHL shall also ensure to refer to the lists as available in the Schedules to the Prevention and Suppression of Terrorism (Implementation of Security Council Resolutions) Order, 2007, as amended from time to time.

47.2 Details of accounts resembling any of the individuals/entities in the above lists shall be reported to FIU-IND apart from advising Ministry of Home Affairs as required under UAPA notification dated February 2, 2021 (Annex II of the RBI Master Direction).

47.3 Freezing of Assets under Section 51A of UAPA, 1967: The procedure laid down in the UAPA Order dated February 2, 2021 (Annex II of the RBI Master Direction), shall be strictly followed and meticulous compliance with the Order issued by the Government shall be ensured.

48. Obligations under Weapons of Mass Destruction (WMD) and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (WMD Act, 2005):

48.1 CFHL shall ensure compliance with the "Procedure for Implementation of Section 12A of the Weapons of Mass Destruction (WMD) and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005" laid down in terms of Section 12A of the WMD Act, 2005 vide Order dated September 1, 2023, by the Ministry of Finance, Government of India (Annex III of the RBI Master Direction).

48.2 CFHL shall ensure not to carry out transactions in case the particulars of the individual/ entity match with the particulars in the designated list.

48.3 Further, CFHL shall run a check, on the given parameters, at the time of establishing a relation with a customer and on a periodic basis to verify whether individuals and entities in the designated list are holding any funds, financial asset, etc., in the form of bank account, etc.

48.4 In case of match in the above cases, CFHL shall immediately inform the transaction details with full particulars of the funds, financial assets or economic resources involved to the Central Nodal Officer (CNO), designated as the authority to exercise powers under Section 12A of the WMD Act, 2005. A copy of the communication shall be sent to State Nodal Officer, where the account/transaction is held and to the RBI. CFHL shall file an STR with FIU-IND covering all transactions in the accounts, covered above, carried through or attempted.

It may be noted that, Director, FIU-India has been designated as the CNO.

48.5 In case there are reasons to believe beyond doubt that funds or assets held by a customer would fall under the purview of clause (a) or (b) of sub-section (2) of Section 12A of the WMD Act, 2005, CFHL shall prevent such individual/entity from conducting financial transactions, under intimation to the CNO by email, FAX and by post, without delay.

48.6 In case an order to freeze assets under Section 12A is received by the CFHL from the CNO, CFHL shall, without delay, take necessary action to comply with the Order.

48.7 The process of unfreezing of funds, etc., shall be observed as per paragraph 7 of the Order. Accordingly, copy of application received from an individual/entity regarding unfreezing shall be forwarded by CFHL along with full details of the asset frozen, as given by the applicant, to the CNO by email, FAX and by post, within two working days.

49. CFHL shall verify every day, the 'UNSCR 1718 Sanctions List of Designated Individuals and Entities, to take into account any modifications to the list in terms of additions, deletions or other changes and also ensure compliance with the 'Implementation of Security Council Resolution on Democratic People's Republic of Korea Order, 2017', as amended from time to time by the Central Government.

In addition to the above, CFHL shall take into account – (a) other UNSCRs and (b) lists in the first schedule and the fourth schedule of UAPA, 1967 and any amendments to the same for compliance with the Government orders on implementation of Section 51A of the UAPA and Section 12A of the WMD Act.

50. Jurisdictions that do not or insufficiently apply the FATF Recommendations

a. FATF Statements circulated by Reserve Bank of India from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered. Company shall apply enhanced due diligence measures, which are effective and proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF.

b. Special attention shall be given to business relationships and transactions with persons (including legal persons and other financial institutions) from or in countries that do not or insufficiently apply the FATF Recommendations and jurisdictions included in FATF Statements.

c. The background and purpose of transactions with persons (including legal persons and other financial institutions) from jurisdictions included in FATF Statements and countries that do not or insufficiently apply the FATF Recommendations shall be examined, and written findings together with all documents shall be retained and shall be made available to Reserve Bank/other relevant authorities, on request.

d. Company policy framework ensures compliance with PML Act/ Rules, including regulatory instructions in this regard and provides a bulwark against threats arising from money laundering, terrorist financing, proliferation financing and other related risks. While ensuring compliance of the legal/regulatory requirements as above, company may also consider adoption of best international practices taking into account the FATF standards and FATF guidance notes, for managing risks better.

Secrecy Obligations and Sharing of Information

51. Secrecy Obligations and Sharing of Information:

a. CFHL shall maintain secrecy regarding the customer information which arises out of the contractual relationship between itself and customer.

b. 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.

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

d. The exceptions to the said rule shall be as under:
   i. Where disclosure is under compulsion of law
   ii. Where there is a duty to the public to disclose,
   iii. The interest of CFHL requires disclosure and
   iv. Where the disclosure is made with the express or implied consent of the customer.

CDD Procedure and Sharing KYC Information with Central KYC Records Registry (CKYCR)

52. CFHL shall capture customer's KYC records and upload onto CKYCR within 10 days of commencement of an account- based relationship with the customer in line with the Operational Guidelines issued by CERSAI. CFHL shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, for 'Individuals' (accounts opened after April 1, 2017) and 'Legal Entities' (LEs) (April 1, 2021), as per the KYC templates.

Once KYC Identifier is generated by CKYCR, CFHL shall ensure that the same is communicated to the individual/ legal entity. In order to ensure that all KYC records are incrementally uploaded on to CKYCR, CFHL shall upload/ update the KYC data pertaining to accounts of individual customers and legal entities opened prior to the above-mentioned dates at the time of periodic updation, or earlier, when the updated KYC information is obtained/received from the customer. CFHL shall ensure that during periodic updation, the customers are migrated to the current CDD standard.

Where a customer submits KYC Identifier, with an explicit consent to download records from CKYCR, CFHL shall retrieve the KYC records online from the CKYCR using the KYC Identifier and the customer shall not be required to submit the same KYC records or information or any other additional identification documents or details, unless –

i. There is a change in the information of the customer as existing in the records of CKYCR.
ii. The current address of the customer is required to be verified.
iii. CFHL considers it necessary in order to verify the identity or address of the customer, or to perform enhanced due diligence or to build an appropriate risk profile of the client.
iv. The validity period of documents downloaded from CKYCR has lapsed.

Reporting Requirement Under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

53. Under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS), CFHL shall adhere to the provisions of Income Tax Rules 114F, 114G and 114H and determine whether they are a 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-filling 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– The Company will 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. 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.

Recruitment & Training

54. **Customer Education:** Implementation of KYC procedures requires CFHL 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. Therefore, CFHL shall 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.

55. **Employee Training:** A general appreciation of the background to KYC & AML Policy shall be provided to all newly recruited employees, members of the sales/advisory staff who deal with customers, DSA's, administrative/operations supervisors and managers.

    Company shall endeavour to ensure that the staff dealing with / being deployed for KYC/AML/CFT matters have: high integrity and ethical standards, good understanding of extant KYC/AML/CFT standards, effective communication skills and ability to keep up with the changing KYC/AML/CFT landscape, nationally and internationally. Company shall also strive to develop an environment which fosters open communication and high integrity amongst the staff.

    At regular intervals, Employee training programme shall be put in place to ensure that the members of staff are adequately trained with the regulatory requirements and their responsibilities under the KYC/AML/CFT guidelines. The focus of the training may 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/CFT policies of the Company, regulation and related issues shall be ensured.

56. **Employees hiring:** 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 shall be put in place as an integral part of personnel recruitment/ hiring process.

Introduction of New Technologies

57. CFHL shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products Further, CFHL shall ensure:

    a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
    b. Adoption of a risk-based approach to manage and mitigate the risks through appropriate EDD measures and transaction monitoring, etc.

Reviews/Risk Assessment/Audit

58. **Money Laundering ("ML") And Terrorist Financing (TF") Risk Assessment**

    a. The Company shall carry out the ML and the TF risk assessment exercise to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk for clients, products, services, transactions or delivery channels, etc. The ML and the TF risk assessment shall consider all relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The Company, while finalising the internal risk assessment, shall take cognizance of overall sector-specific vulnerabilities, if any, that the regulator/ supervisor may advise from time to time.

b. The risk assessment shall be commensurate to the nature, size, complexity of activities of the Company and should be properly documented. The risk assessment exercise shall be done at least once in a year.
c. The outcome of the exercise shall be put up to the Risk Management Committee of the Board (RMCB). The RMCB shall have authority to prescribe controls and procedures in this regard and it shall monitor the implementation of the controls.
d. Based on its risk assessment, the Company shall put in place policies/ procedures and controls, including CDD, for mitigation and management of identified risks.

59. **Audit Assurance:** The Internal Audit function of the Company shall verify compliance with the KYC and AML Policy. The audit findings and compliance thereof will be put up before the Audit Committee of the Board on a quarterly interval till closure of audit findings.

Selling Third Party Products

60. **Selling Third Party Products:** In case the Company acts as an agent for selling any third-party products (permitted as per the extant regulations), it shall ensure compliance with the following aspects:

a. The identity and address of the walk-in customer shall be verified as per the extant applicable regulatory requirements before undertaking any transaction.
b. Transaction details of sale of third-party products and related records shall be maintained.
c. Monitoring of transactions for any suspicious activity will be done.

Quoting of PAN

61. **For cash collection of ₹50,000/- and more from a customer in a single day, to adhere to the Income Tax Rule 114B, the Company shall ensure the following:**

a. If the customer's PAN is not updated in system, PAN of the customer along with a copy of the PAN Card shall be required to be collected for cash receipt of Rs. 50,000/- or more. Further, the PAN shall be updated in the Company's system.
b. If the customer is not having PAN, then Form 60 duly signed by the customer along with a valid identity proof shall be collected for cash receipt of Rs. 50,000/- and more.

Actions to be taken at Group Level

62. For discharging obligations under the provisions of Chapter IV of the PML Act, 2002, the Company shall co-ordinate with other group entities and take actions to implement group-wide programmes, within its group, against money laundering and terror financing, including policies for sharing information required for the purposes of client due diligence and money laundering and terror finance risk management. Further, such programmes shall ensure adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

General Guidelines

a. CFHL shall ensure that the provisions of PML Rules framed thereunder and the Foreign Contribution and Regulation Act, 1976 (wherever applicable) are strictly adhered.
b. In a situation where in the KYC measures cannot be applied satisfactorily due to non-furnishing of information and/or non-cooperation by the customer, CFHL 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 shall be taken at a reasonably senior level.
c. The internal audit and compliance function shall evaluate and ensure adherence to the AML & KYC policies and procedures.

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