



Caparo Financial Solutions Limited

CAPARO FINANCIAL SOLUTIONS LIMITED (CFSL)

CFSL AML - KYC Policy

PREAMBLE:

The Reserve Bank of India (RBI) has issued comprehensive 'Know Your Customer' (KYC) Guidelines to all Non-Banking Financial Companies (NBFCs) in the context of the recommendations made by the Financial Action Task Force (FATF) and Anti Money Laundering (AML) standards and Combating Financing of Terrorism (CFT) policies.

In view of the same, CFSL has adopted the said KYC guidelines with suitable modifications depending on the business activity undertaken by it. The Company has ensured that a proper policy framework on KYC and AML measures be formulated in line with the prescribed RBI guidelines and put in place duly approved by its Board of Directors.

OBJECTIVE:

The objective of KYC policy is to prevent the Company from being used, intentionally or unintentionally, by criminal elements for money laundering activities or terrorist financing activities. KYC procedures shall also enable the Company to know and understand its customers and its financial dealings better which in turn will help it to manage its risk prudently. Thus KYC policy has been framed by the Company for the following purpose:

1. To prevent criminal elements from using Company for money laundering activities;
2. To enable Company to know and understand its customers and their financial dealings better which, in turn, would help the Company to manage risks prudently;
3. To put in place appropriate controls for detections and reporting of suspicious activities in accordance with applicable laws;
4. To comply with applicable laws and regulatory guidelines;
5. To ensure that the concerned staff are adequately trained in KYC/AML/CFT procedures. This KYC policy is applicable to all branches/ offices of the **Company** and is to be read in conjunction with related operational guidelines issued from time to time. This policy includes nine (9) key elements:
 - Customer Acceptance Policy (CAP);
 - Customer Identification Procedures (CIP);
 - Monitoring of Transactions;
 - Risk Management;
 - Training Programme;
 - Internal Control Systems;
 - Record Keeping;
 - Appointment of Principal Officer
 - Reporting to FIU-India

I. DEFINITIONS:

1. Customer

- A person or entity that has a business relationship with CFSL;
- A person who is engaged in a financial transaction or activity with CFSL and includes a person on whose behalf the person who is engaged in the transaction or activity;



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- One on whose behalf the account is maintained (i.e. the beneficial owner);
- Any other person or entity connected with a financial transaction which can pose significant reputation or other risks to CFSL, say a wire transfer or issue of high value demand draft as a single transaction.

2. Beneficial Owner:

- Where the **customer is a Company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have a *controlling ownership interest* or who exercise *control* through other means.

Explanation -

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

2. *"Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.*

- Where the **customer is a Partnership firm**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of capital or profits of the partnership.
- Where the **customer is an unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has/have ownership of/entitlement to more than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals.

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

- Where the **customer is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

3. Customer Due Diligence (CDD) - Identifying and verifying the customer and the beneficial owner using 'Officially Valid Documents (OVD)' as a 'proof of identity' and a 'proof of address'.

4. Officially valid document (OVD) - means and includes:

- Passport,
- Driving license,
- PAN card,
- Voter ID / Election ID card,
- Aadhaar Card / letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Provided further that where 'simplified measures' are applied for verifying, for the limited purpose of, proof of address the following additional documents are deemed to be OVDs:



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- Utility bill, which is not more than two months old, of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- Property or Municipal Tax receipt;
- Bank account or Post Office savings bank account statement;
- Pension or family Pension payment orders (PPOs) issued to retired employees by Government Departments or PSUs, if they contain address;
- Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and
- Documents issued by Government departments of foreign jurisdictions or letter issued by Foreign Embassy or Mission in India.

5. Person” - means 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).

6. Senior Management - for the purpose of KYC compliance shall include Designated Director, Head of Credit, Head of Risk, Business Heads, Key Managerial Persons, Compliance Officer, Principal Officer (PO).

I. CUSTOMER ACCEPTANCE POLICY (“CAP”)

CFSL’s Customer Acceptance policy (**CAP**) lays down the criteria for acceptance of customers. The guidelines in respect of the customer relationship with CFSL broadly are detailed below:

- a) No account is to be opened in anonymous or fictitious/benami name(s)/entity(ies);
- b) No account is opened where the Company is unable to apply appropriate CDD measures, either due to non-cooperation of the customer or non-reliability of the documents/information furnished by the customer. Accept customers only after verifying their identity, as per CDD Procedures defined aforesaid and shall be followed for all the joint account holders (including guarantors) as well, while opening a joint account;
- c) Necessary checks before opening a new account are to be ensured so 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. Full details of accounts/ customers bearing resemblance with any of the individuals/ entities in the list shall be treated as suspicious and reported.
- d) No transaction or account based relationship is undertaken without following the CDD procedure;
- e) The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified;
- f) ‘Optional’/additional information, is obtained with the explicit consent of the customer after the account is opened;



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- g) If an existing KYC compliant customer of the Company desires to open another account there shall be no need for a fresh CDD exercise;
- h) CDD Procedure is followed for all the joint account holders (including guarantors), while opening a joint account;
- i) Circumstances in which, a customer is permitted to act on behalf of another person/entity, is clearly spelt out;
- j) 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 circulated by Reserve Bank of India.
- k) Implementation of CAP should not become too restrictive and result in denial of CFSL services to general public, especially to those who are financially or socially disadvantaged.

II. **RISK MANAGEMENT**

For Risk Management, the Company will have a risk based approach which includes the following:

- a) Customers shall be categorized as **low**, **medium** and **high** risk category, based on the assessment and risk perception of the Company;
- b) Risk categorization shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.
- c) The customers will be monitored on regular basis with built in mechanism for tracking irregular behavior for risk management and suitable timely corrective action.
- d) The Company shall prepare a profile for each new customer during the credit appraisal based on risk categorization as mentioned in this policy. The customer profile shall contain the 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 CFSL. These requirements may be moderated according to the risk perception.

(i) High Risk – (Category A):

High risk customers typically will include:

- Non-Resident Customers;
- High Net Worth Individuals without an occupation track record of more than 3 years;
- Trust, Charitable organization, Non-Government Organization (NGO), Organizations receiving donations;
- Companies having close family shareholding or beneficial ownership;
- Firms with sleeping partners;
- Politically exposed persons (PEPs) of Indian/ Foreign origin;
- Non face to face customers;
- Person with dubious reputation as per public information available.

(ii) Medium Risk – (Category B):

Medium risk customers typically will include:

- Salaried applicant with variable income/ unstructured income receiving salary in cheque;
- Salaried applicant working with private limited companies, proprietary, partnership firms;
- Self employed professionals other than HNIs



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- Self employed customers with sound business and profitable track record for a reasonable period;
- High Net Worth individuals with occupation track record of more than 3 years

(iii) Low Risk – (Category C):

Low risk individuals (other than high net worth) and entities are whose identities and sources of wealth can be easily identified and all other person not covered under above two categories. Customers carrying low risk include the following:

- Salaried employees with well defined salary structures for over 5 years;
- People working with government owned companies, regulators and statutory bodies, MNCs, rated companies, public sector units, public limited companies etc. In the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, the company will obtain senior management approval in such cases to continue the business relationship with such person and also undertake enhanced monitoring;
- People belonging to lower economic strata of the society and whose accounts show small balances and low turnover;
- People working with public sector units;.

III. CUSTOMER IDENTIFICATION PROCEDURES (“CIP”)

- (a) Customer Identification means identifying the customer and verifying his/ her identity by using reliable independent source documents, data or information. Company shall obtain sufficient information necessary to verify the identity of each new customer long with the brief details of the promoters and management, wherever applicable, whether regular or occasional and the purpose of the intended nature of business relationship.
- (b) Besides risk perception, the nature of information/ documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, company shall obtain sufficient identification data to verify the identity of the customer, his address/ location and also his recent photograph. For customers that are legal persons or entities, the company shall:
- Verify the legal status of the legal person/ entity through proper and relevant documents;
 - Verify that any person purporting to act on behalf of the legal person/ entity is so authorized and identify and verify the identity of that person
- (c) Understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer Identification requirements keeping in view the provisions applicable of Prevention of Money Laundering Act & its Rule. An indicative list of the nature and type of documents/ information that may be relied upon for customer identification is given in Annexure. The company will frame internal guidelines based on the experience of dealing with such person/ entities, normal prudence and legal requirements.

IV. MONITORING OF TRANSACTIONS:

- (a) The Company normally does not and would not have large cash transactions. However, if and when cash transactions of Rs 10 lacs and above are undertaken, the Company will keep proper record of all such transactions in a separate register maintained at its office. The Company shall monitor transactions of a suspicious nature on an ongoing basis for the purpose of reporting it to the appropriate authorities. The extent of monitoring by the Company will depend on the risk



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sensitivity of the account and special attention will be given to all complex unusually large transactions, which have no apparent economic or lawful purpose.

- (b) The Company shall promptly report cash transactions or transactions of suspicious nature to the appropriate regulatory and investigating authorities as per the provisions of the PMLA and the Rules.
- (c) CFSL shall exercise caution with respect to the transactions with persons (including legal persons and other financial institutions) from the countries which have been identified by Financial Action Task Force (FATF) as high risk.

V. TRAINING PROGRAMME

CFSL shall have an ongoing employee training programs so that the members of the staff are adequately trained in KYC/ AML/ CFT procedures. Training requirements shall have different focuses for frontline staff, compliance staff and officer/ staff dealing with new customers so that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

VI. INTERNAL CONTROL SYSTEM

The Company's Internal Audit and Compliance functions will evaluate and ensure adherence to the KYC policies and procedures. As a general rule, the compliance function will provide an independent evaluation of the Company's own policies and procedures, including legal and regulatory requirements. The Management under the supervision of Board shall ensure that the audit function is staffed adequately with skilled individuals. Internal Auditors will specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The audit findings and compliance thereof will be put up before the Audit Committee of the Board on quarterly intervals till closure of audit findings.

Further, the Company shall have an adequate screening mechanism in place as an integral part of their recruitment/ hiring process of personnel so as to ensure that person of criminal nature/ background do not get an access, to misuse the financial channel.

VII. RECORD MANAGEMENT

The following steps shall be taken regarding maintenance, preservation and reporting of customers account information, with reference to provisions of PML Act and Rules:

- (a) Maintain all necessary records of transactions between the company and the customer for atleast 5 years from the date of transactions;
- (b) Preserve the records pertaining to the identification of the customers and their addresses obtained while opening the account and during the course of business relationship for at least 5 years after the business relationship is ended;
- (c) Make available the identification records and transactions data to the competent authorities upon requests;
- (d) Introduce a system of maintain proper record of transactions;
- (e) Maintain all necessary information in respect of transactions so as to permit reconstruction of individual transaction, including the following:
 - The nature of transactions;
 - The amount of the transaction and the currency in which it was denominated;



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- The date on which the transaction was conducted;
 - The parties to the transaction
- (f) Evolve a system for proper maintenance and preservation of account information in a manner that allows to be retrieved easily and quickly whenever required or when requested by the competent authorities;
- (g) Maintain records of the identity and address of their customers and records in respect of transactions in hard and soft formats.

VIII. APPOINTMENT OF PRINCIPAL OFFICER

CFSL shall designate a senior employee as 'Principal Officer' (PO) who shall be located at the Registered/Head/Corporate office and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. The name, designation and address of the Principal Officer shall be communicated to the FIU-IND.

IX. REPORTING TO FINANCIAL INTELLIGENCE UNIT - INDIA

The Principal Officer (PO) shall report information relating to cash and suspicious transactions, if detected, to the Director, Financial Intelligence Unit India (FIU-IND) as advised in terms of the PML Rules in the prescribed formats as designed and circulated by RBI.

The employees of company shall maintain strict confidentiality of the fact of furnishing/ reporting details of suspicious transactions.

X. APPOINTMENT OF DESIGNATED DIRECTOR

The Board of Directors shall nominate a "Designated Director" to ensure compliance with the obligations prescribed by the PMLA and the Rules there under. The "Designated Director" can be a person who holds the position of senior management or equivalent. However, it shall be ensured that the Principal Officer is not nominated as the "Designated Director". The name, designation and address of the Designated Director shall be communicated to the FIU-IND.

XI. ENHANCED DUE DILIGENCE (EDD) MEASURES

1. Accounts of Politically Exposed Persons (PEPs)

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.

- I.1. Office shall 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.
- I.2. Office shall verify the identity of the person and seek information about the sources of funds before accepting the PEP as a Customer.
- I.3. The decision to provide financial services to an account for PEP shall be taken at a senior level and shall be subjected to monitoring on an ongoing basis.



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I.4. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.

I.5 All such accounts are subject to enhanced monitoring on an on-going basis;

These instructions shall also be applicable to accounts where PEP is the beneficial owner.

2. Accounts of non-face-to-face customers

The Company shall ensure that the first payment is to be effected through the customer's KYC complied account for enhanced due diligence of non face to face customers.

3. Trust/Nominee or Fiduciary Accounts

Offices shall determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, they shall 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.

CFSL shall take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries shall be identified when they are defined. In the case of a 'foundation', branches shall take steps to verify the founder managers/ directors and the beneficiaries, if defined. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures.

4. Accounts of companies and firms

Branch/office need to be vigilant against business entities being used by individuals as a front for maintaining accounts with NBFCs. Branch/ office may 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 shall not be necessary to identify all the shareholders.

XII. GENERAL

1. KYC for the Existing Accounts:

While the KYC guidelines will apply to all new customers, the same would be applied to the existing customers on the basis of materiality and risk. However, transactions with existing customers would be continuously monitored for any unusual pattern in the operation of the accounts.

2. Updation in KYC Policy of Company:

After taking the due approval from the Board of Directors of CFSL management shall make the necessary amendments/modifications in the KYC/ AML/ CFT Policy or such other related guidance notes of Company, to be in line with RBI or such other statutory authority's requirements/updates/ amendments from time to time.

3. Periodic Updation:



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Periodic 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.



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Annexure

Customer Identification Procedure Features to be verified and Documents that may be obtained from Customers

INDIVIDUALS	I. PROOFS OF IDENTITY:- a. Passport (OVD) b. *Pan Card (OVD) c. Voter' s Identity Card (OVD) d. Driving License (OVD) e. Defence ID Card (OVD) f. Central & State Govt ID Card (OVD) g. Aadhaar Card (OVD) <i>*Note: PAN or form 60 in lieu of PAN</i>
	II. PROOFS OF RESIDENCE:- 1) Passport (OVD) 2) Property or Municipal Tax Paid Receipt (OVD) 3) Bank Account or Post Office savings bank account Statement (OVD) 4) Letter from any recognized public authority. 5) Telephone bill / Post paid Mobile phone bill / Electricity bill / Water Bill / Piped gas bill not more than 3 months old (OVD) 6) Aadhaar Card (OVD) 7) Letter from employer (Subject to the satisfaction of the Company) 8) Copy of agreement to sale / sale deed 10) Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. (OVD – only for address purpose) 11) Voter's ID card (OVD)
	Additional / Optional documents: i. Registered Leave & License Agreement or Rent Agreement having the validity as on the date of entering into a relationship with the company. (only for address purpose) ii. Pension or family Pension payment



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	<p>orders (PPOs) issued to retired employees by Government Departments or PSUs, if they contain address. (only for address purpose)</p> <p>iii. A person not having an address proof in his/her own name may provide an address proof (as accepted by the company) of any close relative (e.g. Spouse, son, daughter, parents) supported by a document establishing their relationship (e.g. Pan Card, Passport, Birth Certificate. Etc.,) supported with a declaration that the said customer is residing with the relative whose address proof is being provided to the company.</p> <p>iv. Identity/Address Proof issued by the village Panchayat Officer/Tehsildar/ Block Development Officer.</p> <p>v. Pan card intimation/ allotment letter.</p> <p>vi. For students residing in a Hostel, Hostel room allotment letter/letter from college office.</p> <p>Documents issued by Government departments of foreign jurisdictions or letter issued by Foreign Embassy or Mission in India.(only for address purpose)</p>
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PRIVATE / PUBLIC LIMITED C O M P A N Y / LLPS	<p>Mandatory documents – One (1) certified copy of each of the following documents needs to be obtained:</p> <ol style="list-style-type: none"> 1) Certificate of incorporation 2) Memorandum & Articles of Association 3) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf. 4) Officially valid documents (OVDs) in respect of managers, officers or employees holding an attorney to transact on its behalf. 5). *PAN card <p>*Note: PAN or form 60 in lieu of PAN and Aadhaar of the Directors, KMPs, Partners, or persons holding an attorney to transact the business on behalf of entity.</p> <p>Additional / Optional documents:</p> <ol style="list-style-type: none"> 6). Certificate / registration document issued by Sales Tax / GST / Professional Tax authorities 7) Copy of the utility bill (not more than two months old)/ Copy of PAN allotment letter for address proof 8) IEC (Importer Exporter Code) issued to the proprietary concern by
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	the office of DGFT as an identity document.
PARTNERSHIP FIRM	<p>Mandatory documents – One (1) certified copy of each of the following documents needs to be obtained:</p> <ol style="list-style-type: none">1). Registration certificate, if registered2). *PAN card3). Partnership deed4). Officially valid documents (OVDs) in respect of the person holding an attorney to transact on its behalf. <p>*Note: PAN or form 60 in lieu of PAN and Aadhaar of the Partners, or persons holding an attorney to transact the business on behalf of entity.</p> <p>Additional / Optional documents:</p> <ol style="list-style-type: none">5). Certificate / registration document issued by Sales Tax / GST / Professional Tax authorities6). Copy of the utility bill (not more than two months old)/ Copy of PAN allotment letter for address proof7). IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document.



<p>TRUST</p>	<p>Mandatory documents – One (1) certified copy of each of the following documents needs to be obtained: (a) Registration certificate (b) Trust deed (c) Officially valid documents (OVDs) in respect of the person holding a power of attorney or of any Trustee(s) to transact on its behalf (d) *PAN card *Note: PAN or form 60 in lieu of PAN and Aadhaar of the Partners, or persons holding an attorney to transact the business on behalf of entity.</p> <p>Additional / Optional documents: 1). Certificate / registration document issued by Sales Tax / GST / Professional Tax authorities 2). Copy of the utility bill (not more than two months old)/ Copy of PAN allotment letter for address proof</p>
<p>Unincorporated associations 1. Association of Persons (AOP) 2. Body of Individuals (BOI)</p> <p><i>Explanation 1:</i>  Unregistered trusts / partnership firms shall be included under the term 'unincorporated association'.</p> <p><i>Explanation 2:</i> Term 'body of individuals' includes societies.</p>	<p>Mandatory documents – One (1) certified copy of each of the following documents needs to be obtained: (a) resolution of the managing body of such association or body of individuals; (b) power of attorney granted to transact on its behalf; (c) Officially valid documents (OVDs) in respect of the person holding an attorney to transact on its behalf and (d) Any such information as may be required by CFSL to collectively establish the legal existence of such an association or body of individuals. (d) *PAN card *Note: PAN or form 60 in lieu of PAN and Aadhaar of the Partners, or persons holding an attorney to transact the business on behalf of entity.</p> <p>Additional / Optional documents: 1). Certificate / registration document issued by Sales Tax / GST / Professional Tax authorities 2). Copy of the utility bill (not more than two months old)/ Copy of PAN allotment letter for address proof</p>



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Juridical persons not specifically covered in the earlier part, such as Government or its Departments, Societies, Universities and Local bodies like Village Panchayats	<p>Mandatory documents – One (1) certified copy of each of the following documents needs to be obtained:</p> <ol style="list-style-type: none">1. Document showing name of the person authorised to act on behalf of the entity;2. Officially valid documents (OVDs) for proof of identity and address in respect of the person holding an attorney to transact on its behalf, and3. Such documents as may be required by CFSL to establish the legal existence of such an entity/juridical person. <p>Additional / Optional documents:</p> <ol style="list-style-type: none">4. Certificate / registration document issued by Sales Tax / GST / Professional Tax authorities5. Copy of the utility bill (not more than two months old) / Copy of PAN allotment letter for address proof
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