



Know Your Customer (KYC) & Anti Money Laundering (AML) Policy

Phillip Finance & Investment Services India Pvt. Ltd.

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I. 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards

Introduction

In the global marketplace, the attempted use of financial institutions to launder money is a significant problem that has caused great concern in the international and domestic community. This heightened awareness has resulted in the passage of strict laws and increased penalties for money laundering activities worldwide.

Reserve Bank of India (RBI) has issued guidelines on 'Know Your Customer' (KYC) Guidelines – Anti Money Laundering Standards for Non Banking Finance Companies (NBFCs) thereby setting standards for prevention of money laundering activities and corporate practices while dealing with their customers vide Circular Nos.: DNBS (PD) CC No. 34/10.01/2003-04, dated 06-01-2004, DNBS (PD) CC No. 48/10.42/2004-05, dated 21-02-2005, DNBS (PD) CC No. 64/03.10.042/2005-06, dated 07-03-2006. The Company shall adopt all the best practices prescribed by RBI from time to time and shall make appropriate modifications if any necessary to this code to conform to the standards so prescribed. This policy is applicable to all staff of Phillip Finance & Investment Services Pvt. Ltd (hereinafter referred to as "Phillip Finance").

Phillip Finance shall adopt all the best practices prescribed by RBI from time to time and shall make appropriate modifications if any necessary to this code to conform to the standards so prescribed. The Policy is to be read in conjunction with related operational guidelines issued from time to time and necessarily read with reference to the changes/modifications as advised by RBI from time to time.

General Guidelines

Any information collected from the customer for any purpose (account opening, sanction, etc) would be kept confidential and any details thereof would not be divulged for cross selling or any other purposes. The Company will ensure that any information sought from the customer is relevant to the perceived risk, is not intrusive and is in conformity with the guidelines issued in this regard. Any other information from the customer shall be sought separately with his/her consent and after opening the account.

Compliance with these policies and procedures is mandatory. Failure to comply with the spirit and / or detail of the policies and procedures may result in disciplinary action being taken which could result in your dismissal without compensation. Further, failure to comply with elements of money laundering and terrorist financing legislation could render you personally liable to criminal prosecution, civil action and regulatory sanction.

This policy shall be known as the 'Know Your Customer (KYC) & Prevention of Money Laundering Act (PMLA) Policy'

Important Definitions:

1. “Customer” is defined as a person who is engaged in a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting;
2. “Designated Director” means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules and includes:-
 - i. the Managing Director or a whole-time Director duly authorized by the Board of Directors if the reporting entity is a company.
3. “Officially Valid Document (OVD)” means valid documents which are acceptable for opening an account as stipulated by RBI from time to time. Refer checklist for account opening.
4. “financial institution” means a financial institution as defined in clause (c) of section 45-I of the Reserve Bank of India Act, 1934 (2 of 1934) and includes a chit fund company, a housing finance institution, an authorized person, a payment system operator, a nonbanking financial company and the Department of Posts in the Government of India;
5. "proceeds of crime" means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property
6. “scheduled offence” means –i) the offences specified under Part A of the Schedule; or ii) the offences specified under Part B of the Schedule if the total value involved in such offences is thirty lakh rupees or more;
7. “Customer” means a person who is engaged in a financial transaction or activity with reporting entity.
8. “Transaction” means a purchase, sale, loan, pledge, gift, transfer, delivery etc

Guidelines for NBFCs and persons authorized by NBFCs including brokers/agents etc.

All necessary guidelines should be equally applicable to the persons authorized by NBFCs including brokers/agents etc. collecting public deposits on behalf of NBFCs. Phillip Finance has not authorized to any person as broker or agent hence the responsibility related to broker or agent is not applicable.

i. Adherence to Know Your Customer (KYC) guidelines:

It shall be the sole responsibility of the Phillip Finance to ensure full compliance with the KYC guidelines.

ii. Due diligence of persons authorized by NBFCs including brokers/agents etc.

As an extension of the KYC Guidelines, NBFCs are required to put in place a process of due diligence in respect of persons authorized by NBFCs including brokers/agents etc. collecting deposits on behalf of the company through a uniform policy for appointment and detailed verification. Details of due diligence conducted may be kept on record with the company for verification.

Phillip Finance has not authorized to any person as broker or agent hence the responsibility related to broker or agent is not applicable.

Phillip Finance placed a system for periodical review of risk categorization of accounts and applying the enhanced due diligence measures in case of higher risk perception customer. Review of risk categorization of customers should be carried out at a periodicity of not less than once in six months and undertake the 'Client Due Diligence' and apply such measures to existing clients based on risk categorization.

Carry out the on-going due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the client, his business and risk profile and, wherever necessary, the source of funds. Full KYC exercise will be done at least every two years for high risk individuals and entities. Full KYC exercise will be done at least every ten years for low risk and at least every eight years for medium risk individuals and entities taking in to account whether and when client due diligence measures have previously been undertaken and the adequacy of data obtained. Physical presence of the clients may, however, not be insisted upon at the time of such periodic updations.

Allocation of Unique Customer Identification Code

A Unique Customer Identification Code is allocated to customer. UCIC will help to identify the customers, avoid multiple identities, track the facilities availed, monitor financial transactions in a holistic manner and enable to have a better approach to risk profiling of customers.

Accounts of Politically Exposed Persons (PEPs)

Detailed guidelines on Customer Due Diligence (CDD) measures to be made applicable to Politically Exposed Person (PEP) and their family members or close relatives are contained in Annex VII of the master circular of RBI dated July 31, 2015. In the event of an existing customer or the beneficial owner of an existing account, subsequently becoming PEP, Phillip Finance should obtain senior management approval to continue the business relationship and subject the account to the CDD measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis.

The instructions are also applicable to accounts where PEP is the ultimate beneficial owner. Further, in regard to PEP accounts, Phillip Finance should have appropriate ongoing risk management procedures for identifying and applying enhanced CDD to PEPs, customers who are close relatives of PEPs, and accounts of which PEP is the ultimate beneficial owner.

Client accounts opened by professional intermediaries

When the Phillip Finance has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. Phillip Finance may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Phillip Finance also maintain 'pooled' accounts managed by lawyers/chartered accountants or stockbrokers for funds held 'on deposit' or 'in escrow' for a range of clients. Where funds held by the intermediaries are not co-mingled at the Phillip Finance and there are 'sub-accounts', each of them attributable to a beneficial owner, all the beneficial owners must be identified. Where such funds are co-mingled at the Phillip Finance, the Phillip Finance should still look through to the beneficial owners.

Phillip Finance should not allow opening and/or holding of an account on behalf of a client/s by professional intermediaries, like Lawyers and Chartered Accountants, etc., who are unable to disclose true identity of the owner of the account/funds due to any professional obligation of customer confidentiality. Further, any professional intermediary who is under any obligation that inhibits Phillip Finance ability to know and verify the true identity of the client on whose behalf the account is held or beneficial ownership of the account or understand true nature and purpose of transaction/s, should not be allowed to open an account on behalf of a client.

Accounts of proprietary concerns

Phillip Finance has been advised that internal guidelines for customer identification procedure of legal entities may be framed based on their experience of dealing with such entities, normal lenders prudence and the legal requirements as per established practices. If the Phillip Finance decided to accept such accounts in terms of the Customer Acceptance Policy, the Phillip Finance should take reasonable measures to identify the beneficial owner(s) and verify his / her / their identity in a manner so that it is satisfied

that it knows who the beneficial owner(s) is /are. Phillip Finance should call for and verify the following documents before opening of accounts in the name of a proprietary concern:

- I. Proof of the name, address and activity of the concern, like registration certificate
- II. Any registration / licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority/ Department.
- III. The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax Authorities.
- IV. Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern.
- V. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.

Beneficial ownership

When Phillip Finance identifies a customer for opening an account, it should identify the beneficial owner(s) and take all reasonable steps in terms of Rule 9(3) of the PML Rules to verify his identity, as per guidelines provided below:

- a. Where the client 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 exercises control through other means.
- b. Where the client 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.
- c. Where the client 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.
- d. 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.
- e. Where the client 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.

Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

Designated Director

Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules. Mr. Rajendra Bhambhani, Deputy Managing Director is appointed as the Designated Director.

Principal Officer

The company has appointed Mr. Amish Gandhi as Principal Officer for framing, updating and monitoring the internal controls, policies and procedures as per the requirements of Prevention of Money Laundering Act – 2002 (hereinafter referred to as Act).

He will be responsible for undertaking training programs and advising on money laundering issues, investigating and reporting suspicious activity to (Financial Intelligence Unit) FIU – India, Ministry of Finance.

He will determine whether the information brought to his attention gives rise to knowledge or suspicion, or reasonable grounds for knowledge or suspicion, that a suspect is engaged in money laundering. He will decide whether or not a report should be made to FIU.

Principal Officer will keep a written record of all matters reported to him, of whether or not the suspicion was reported to FIU, and of the reason for his decision. Each case will be dealt with in confidence in order to avoid any possibility of “tipping off” or of prejudicing Phillip Finance’s relationship with the suspect.

Principal Officer will also be responsible for supervising all aspects of liaison with the relevant authorities in the event of any subsequent investigation. He is responsible for establishing and maintaining adequate arrangements for awareness and training, as well as for making annual reports to senior management.

In summary, his responsibilities includes-

- Initiation and Maintenance of these procedures;
- Liaison between company and the enforcement authorities;
- Acting as the central point within company for receiving Money Laundering Suspicion Reports;
- Liaison between Phillip group companies and offices in money laundering related matters.

The role of Principal Officer is essentially that of co-ordination and guidance.

Suspicion of Money Laundering/ Terrorist Financing

With a view to preventing Phillip Finance from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing, whenever there is suspicion of money laundering or terrorist financing or when other factors give rise to a belief that the customer does not, in fact, pose a low risk, Phillip

Finance shall carry out full scale customer due diligence (CDD) before opening an account.

Filing of Suspicious Transaction Report (STR)

Phillip Finance should not open an account (or should consider closing an existing account) when it is unable to apply appropriate CDD measures. In the circumstances, when Phillip Finance believes that it would no longer be satisfied that it knows the true identity of the account holder, the Company should also file a STR with FIU-IND.

II. Prevention of Money Laundering Act, 2002 - Obligations of NBFCs in terms of Rules notified there under:

NBFCs were advised to appoint a Principal Officer and put in place a system of internal reporting of suspicious transactions and cash transactions of Rs.10 lakh and above. In this connection, Government of India, Ministry of Finance, Department of Revenue, issued a notification dated July 1, 2005 in the Gazette of India, notifying the Rules under the Prevention of Money Laundering Act (PMLA), 2002. In terms of the Rules, the provisions of PMLA, 2002 came into effect from July 1, 2005. Section 12 of the PMLA, 2002 casts certain obligations on the NBFCs in regard to preservation and reporting of customer account information.

With the enactment of Prevention of Money Laundering (Amendment) Act, 2012 and amendment to Section 13 of the Act which provides for “Powers of Director to impose fine”, the section 13(2) now reads as under:

“If the Director, in the course of any inquiry, finds that a reporting entity or its designated director on the Board or any of its employees has failed to comply with the obligations under this Chapter, then, without prejudice to any other action that may be taken under any other provisions of this Act, he may—

- a) issue a warning in writing; or
- b) direct such reporting entity or its designated director on the Board or any of its employees, to comply with specific instructions; or
- c) direct such reporting entity 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
- d) by an order, levy a fine on such reporting entity or its designated director on the Board or any of its employees, which shall not be less than Rs. 10,000 but may extend to Rs. 1,00,000 for each failure.”

Maintenance of records of transactions

A: Phillip Finance has introduced a system of maintaining proper record of transactions prescribed under Rule 3 of Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PML Rules, 2005), as mentioned below:

- i) All cash transactions of the value of more than Rs. 10 lakh or its equivalent in foreign currency;

- ii) Series of all cash transactions individually valued below Rs. 10 Lakh, or its equivalent in foreign currency which have taken place within a month and the monthly aggregate which exceeds Rs. 10 lakh or its equivalent in foreign currency. It is clarified that for determining 'integrally connected transactions' 'all accounts of the same customer' should be taken into account.
- iii) 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 facilitating the transactions;
- iv) All suspicious transactions whether or not made in cash and in manner as mentioned in the Rules framed by Government of India under the Prevention of Money Laundering Act, 2002.

It is required to adhere to the reporting requirements as per the amended rules.

B: It is e required to maintain all necessary information in respect of transactions prescribed under PML Rule 3 so as to permit reconstruction of individual transaction, including the following information:

- 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.

Preservation of records

Phillip Finance has 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:

(i) In terms of PML Amendment Act 2012, record should maintain for at least five years from the date of transaction between the Phillip Finance and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

(ii) Phillip Finance should ensure that records pertaining to the identification of the customers and their address (e.g. copies of documents like passports, identity cards, driving licenses, PAN card, utility bills, etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least five years after the business relationship is ended as required under Rule 10 of the Rules abide. The identification of records and transaction data should be made available to the competent authorities upon request.

(iii) Phillip Finance may maintain records of the identity of their clients, and records in respect of transactions referred to in Rule 3 in hard or soft format.

(iv) As mentioned in para 3.3 of Annex VI, It is required to pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. It is further clarified that the background

including all documents/office records/memorandums pertaining to such transactions and purpose thereof should, as far as possible, be examined and the findings at branch as well as Principal Officer level should be properly recorded. Such records and related documents should be made available to help auditors to scrutinize the transactions and also to Reserve Bank/other relevant authorities. These records are required to be preserved for five years as is required under PMLA, 2002.

Reliance on Third Party Due Diligence

For the purpose of verifying the identity of customers at the time of commencement of an account based relationship, Phillip Finance may rely on the Third Party subject to the following condition:

- 1) Phillip Finance obtains necessary information of client due diligence carried out by the third party;
- 2) Phillip Finance takes adequate steps to satisfy itself that copies of identification data and other relevant document relating to the client due diligence requirement will be made available from the third party upon request without salary;
- 3) Phillip Finance is satisfied that such third party is regulated, supervised or monitored for, and has measure in place for compliance with client due diligence and record keeping requirements in line with the requirements and obligations under the PMLA Act,
- 4) the third party is not based in a country or jurisdiction assessed as high risk and
- 5) Phillip Finance is ultimately responsible for client due diligence and undertaking enhanced due diligence measures, as applicable.

Reporting to Financial Intelligence Unit-India

In terms of the PMLA rules, It is required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the address: Director, FIU-IND, Financial Intelligence Unit-India, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi – 110021

Phillip Finance should adhere to the following:

- a) The cash transaction report (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month.
- b) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction,
- c) The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;
- d) Utmost confidentiality should be maintained in filing of CTR and STR with FIU-IND.
- e) It should be ensured that the reports for all the branches are filed in one mode i.e. electronic or manual;

- f) A summary of cash transaction report as a whole may be compiled by the Principal Officer in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted both for manual and electronic reporting.

Phillip Finance may not put any restrictions on operations in the accounts where an STR has been made. However, it should be ensured that there is no tipping off to the customer at any level. It is likely that in some cases, transactions are abandoned/ aborted by customers on being asked to give some details or to provide documents. Phillip Finance should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

Phillip Finance should make STRs if they have reasonable ground to believe that the transaction involve proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002.

In terms of Rule 8, while furnishing information to the Director, FIU-IND, delay of each day in not reporting a transaction or delay of each day in rectifying a mis-represented transaction beyond the time limit as specified in the Rule shall constitute a separate violation

In terms of instructions contained in the guidelines on 'Know Your Customer Norms' and 'Anti-Money Laundering Measures' of our circular dated February 21, 2005, Phillip Finance is required to prepare a profile for each customer based on risk categorization. Further, vide paragraph 4 of our circular DNBS (PD). CC 68 /03.10.042/2005-06 dated April 5, 2006, the need for periodical review of risk categorization has been emphasized. As a part of transaction monitoring mechanism, it is required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorization and updated profile of customers. It is needless to add that a robust software throwing alerts is essential for effective identification and reporting of suspicious transactions.

It is required to pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background including all documents/office records/memorandums pertaining to such transactions and purpose thereof should, as far as possible, be examined and the findings at Principal Officer level should be properly recorded. These records are required to be preserved for ten years as is required under PMLA, 2002. Such records and related documents should be made available to help auditors in their work relating to scrutiny of transactions and also to Reserve Bank/other relevant authorities

Prevention of Money-laundering Amendment Rules, 2009/10 - Obligation of Financial institutions

Government of India vide its Notifications No.13/2009/F.No.6/8/2009-ES dated November 12, 2009, February 12, 2010 and June 16, 2010 amended the Prevention of

Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Financial Institutions Rules, 2005). It is advised to spread across their organisation and to strictly follow the amended provisions of PMLA Rules and ensure meticulous compliance with these Rules.

Assessment and Monitoring of Risk

Phillip Finance is advised to take steps to identify and assess their ML/FT risk for customers, countries and geographical areas as also for products/ services/ transactions/delivery channels, in addition to what has been prescribed in Annex VI para 3.4. of master circular, Phillip Finance should have policies, controls and procedures, duly approved by their boards, in place to effectively manage and mitigate their risk, adopting a risk-based approach as discussed above. As a corollary, it would be required to adopt enhanced measures for products, services and customers with a medium or high risk rating.

In order to have an effective implementation of KYC/AML/CFT measures, it is advised to put in place a system of periodic review of risk categorization of customers and updation of customer identification data in a time-bound manner.

Combating financing of terrorism

In terms of PMLA Rules, suspicious transaction should include inter alia transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism. It is, therefore, advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links and swift identification of the transactions and making suitable reports to the Financial Intelligence Unit – India (FIU-IND) on priority.

As and when list of individuals and entities, approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs), are received from Government of India, Reserve Bank circulates these to financial institutions (including NBFCs). Phillip Finance should ensure to update the consolidated list of individuals and entities as circulated by Reserve Bank. Further, the updated list of such individuals/entities can be accessed in the United Nations website at <http://www.un.org/sc/committees/1267/consolist.shtml>. It is advised that before opening any new account, it should be ensured that the name/s of the proposed customer does not appear in the list. Further, Phillip Finance should scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to RBI and FIU-IND.

Phillip Finance has adequate screening procedure in place to ensure high standards while hiring new employees. Employee screening process includes hiring through HR consultant, internal references. From new joiners, proof of identity & proof of address are

obtained, educational certificates, reference checking and web search with www.watchoutinvestors.com list & in house maintained blacklist clients.

Phillip Finance conducts ongoing Anti-Money Laundering (“AML”) training, which all employees, including new hires, are required to complete on a periodic basis. Training and guidance may be delivered through a variety of methods, including presentation on intranet, new joinees training etc. and Compliance Communications.

Countries which do not or insufficiently apply the FATF recommendations

Financial Action Task Force (FATF) has issued several Statements on risks arising from the deficiencies in AML/CFT regime of various countries. Phillip Finance should give special attention to business relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries.

Monitoring

Phillip Finance should examine 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. Further, if the transactions have no apparent economic or visible lawful purpose, the background and purpose of such transactions should, as far as possible be examined, and written findings together with all documents be retained and made available to Reserve Bank/other relevant authorities, on request. Phillip Finance should apply enhanced due diligence measures on high risk customers.

Operation of deposit account with NBFCs and money mules

“Money mules” can be used to launder the proceeds of fraud schemes (e.g., phishing and identity theft) by criminals who gain illegal access to deposit accounts by recruiting third parties to act as “money mules.” In some cases, these third parties may be innocent while in others, they may be having complicity with the criminals. It is advised to strictly adhere to the guidelines on KYC/AML/CFT issued from time to time and to those relating to periodical updation of customer identification data after the account is opened and also to monitoring of transactions in order to protect themselves and their customers from misuse by such fraudsters. It is also advised to ensure that their accounts in banks are not used for the purpose of money laundering in the manner specified above.

Constitution of Special Investigating Team – sharing of information

Phillip Finance is to ensure that information/documents required by the SIT are made available as and when required.

Annexure I

BROAD CRITERIA'S FOR RISK CATEGORIZATION OF CLIENTS

High Risk Clients:

- Non Resident clients
- Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- Politically exposed persons (PEP), family members or close relatives of 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.
- Companies offering foreign exchange offerings
- Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- Clients with dubious reputation as per public information available.
- Clients against whom any action has been taken by any regulatory authority etc.

Medium Risk Clients:

- House Wives Accounts
- Student Accounts
- Loss making Corporate / Corporate having negative Net-worth
- Companies where the shareholding structure is complex

Low Risk Clients:

- All clients not meeting the above criteria are low risk clients.

Annexure II

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

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

Transactions that do not make Economic Sense

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

Activities not consistent with the Customer's Business

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

Attempts to avoid Reporting/Record-keeping Requirements

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

Unusual Activities

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

Customer who provides Insufficient or Suspicious Information

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

Certain Employees arousing Suspicion

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

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

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

Annexure III

Account Opening Checklist:



KYC Checklist.xlsx
