

**EASTERN INVESTMENTS LIMITED (EIL)**

**Know your Customer (KYC) / Anti Money Laundering (AML) Combating of Financing of Terrorism (CFT) Policy of Eastern Investments Limited in terms of Applicable RBI Circular on KYC/AML/CFT**

**1. PREAMBLE**

**1.1.** The Prevention of Money Laundering Act, 2002 (PMLA) is enacted to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering. The PML Act, and Rules notified there under, came into effect from 1st July, 2005.

**1.2.** The 'Know Your Customer' guidelines were issued in February 2005 revisiting the earlier guidelines issued in January 2004 in the context of the Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). These standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities.

**1.3.** The Reserve Bank of India (RBI) has issued / amended guidelines from time to time in regard to Know Your Customer (KYC) standards to be followed by banks / NBFCs to ensure that a proper policy framework on KYC and AML measures be formulated and put in place with the approval of the Board and measures to be taken in regard to Anti Money Laundering (AML)/ Combating Financing of Terrorism (CFT).

**1.4.** The Government of India set up Financial Intelligence Unit – India as an independent body to report directly to the Economic Intelligence Council headed by the Finance Minister. FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspicious financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

**1.5.** The following amended guidelines issued by the Reserve Bank of India have been considered as key reference points while reviewing this policy.

- i. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards / Combating of Financing of Terrorism (CFT) / Obligation of banks under PMLA, 2002 vide Master Circular Number RBI/2015-16/108 DNBR (PD) CC No. 051/03.10.119/2015-16 dated July 1, 2015 and applicable to all NBFC

ii. Master Direction - Know Your Customer (KYC) Direction, 2016 vide master direction no. RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 (Updated as on December 08, 2016) (Updated as on July 08, 2016).

iii. Amendments issued from time to time by FIU-India and RBI.

**1.6.** Accordingly, in compliance with the guidelines issued / amended by RBI from time to time, the following KYC & AML policy of the Company is approved by the Board of Directors of EIL. This policy is applicable to all categories of products and services offered.

## **2. OBJECTIVES, SCOPE AND APPLICATION OF THE POLICY :**

**2.1** The Reserve Bank of India has issued comprehensive guidelines on Know Your Customer (KYC) norms and Anti-Money Laundering (AML) standards and has advised all NBFCs to ensure that a proper policy framework on KYC and AML measures be formulated and put in place with the approval of the Board. The objective of RBI guidelines is to prevent NBFCs being used, intentionally or unintentionally by criminal elements for money laundering activities. The guidelines also mandate making reasonable efforts to determine the identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business, etc. which in turn helps the Company to manage its risks prudently. Accordingly, the main objective of this policy is to enable the Company to have positive identification of its customers. Accordingly, in compliance with the guidelines issued by RBI from time to time, the following KYC & AML policy of the Company is approved by the Board of Directors of the Company.

**2.2** The company hereunder framing its KC policies incorporating the following four key elements:-

- (i) Customer Acceptance Policy (CAP)
- (ii) Customer Identification Procedures
- (iii) Monitoring of Transactions
- (iv) Risk Management

### **2.2.1 Customer Acceptance Policy (CAP) :**

The scope of this policy for Eastern Investments Limited (EIL) is:

- Laying down explicit criteria for acceptance of customers.
- No account is opened in anonymous or fictitious / benami name(s)
- Customers are all assessed for location of residence, business if any including type of clients and also the mode of transactions and payments.
- Volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (these customers will require very high level of monitoring).

- Documentation requirements and other information collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and guidelines issued from time to time.
- EIL will not open an account where it is unable to apply appropriate customer due diligence measures, i.e. where EIL is unable to verify the identity and /or obtain documents required as per the risk categorization due to non-co-operation of the customer or non-reliability of the data/information furnished.
- Checks against any notified list of the RBI, before accepting a customer, to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations, etc.
- EIL will prepare a profile for each new customer which contains 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 EIL. However, while preparing the customer profile, EIL will seek only such information from the customer which is relevant and is not intrusive. The customer profile will be a confidential document and details contained therein will not be divulged for cross selling or any other purposes.
- It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation will not result in denial of EIL's services to the general public to establish processes and procedures to monitor high value transactions and/or transactions of suspicious nature in accounts.
- Customer Acceptance Policy requires all customers to fill in KYC Form to capture the relevant data for all categories of customers and provide supporting documents as a part of customer identification process / KYC.

### **2.2.2 CUSTOMER IDENTIFICATION PROCEDURE :**

1. The policy clearly specifies the Customer Identification Procedure to be carried out at different stages. Customer identification means identifying the customer and verifying the identity by using reliable, independent source documents, data or information. EIL will obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of business relationship. The Company 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.
2. Besides risk perception, the nature of information/ documents required would also depend on the type of customer (individual, corporate etc.).
3. The Company will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph.

4. For customers that are legal persons or entities, the bank will 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, understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

5. The Company will frame its own internal guidelines based on their experience of dealing with such persons/entities, normal lender's prudence and the legal requirements as per established practices.

6. The Company will take reasonable measures to identify the beneficial owner(s) and verify the identity. Documentation requirements and other information shall be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and guidelines issued by Reserve Bank of India from time to time.

7. The documents requirements would be reviewed periodically as and when required for updating, keeping in view the emerging business requirements. Senior Official(s) in charge of the Policy are empowered to make amendments to the list of such documents required for customer identification in consultation with the sales and distribution channels and compliance.

### **2.2.3 Monitoring of Transactions :**

Ongoing monitoring is an essential element of effective KYC procedures. EIL can effectively control and reduce risk by having an understanding of the normal and reasonable activity of the customers. However, the extent of monitoring will depend on the risk sensitivity of the account. Since EIL being a Non Deposit Accepting NBFC will not have any deposit accounts, this situation will hardly arise, but EIL will in any case pay special attention to all complex, unusually large transactions and all unusual 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.

EIL will put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. EIL will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002 (and the Amended Act, 2009). It will also ensure that transactions of suspicious nature and/or any other type of transaction notified under section 12 of the PML Act, 2002 (and the Amended Act, 2009), is reported to the appropriate law enforcement authority.

#### **2.2.4. Risk Management**

The Board of Directors of EIL will ensure that an effective KYC program is in place and established appropriate procedures and its effective implementation. Responsibility has been explicitly allocated to ensure that EIL's policies and procedures are implemented effectively.

There will be risk profile prepared for each customer and enhanced due diligence measures will be applied on higher risk customers. EIL should take steps to identify and assess their ML/FT risk for customers, countries and geographical areas as also for products/ services/ transactions/delivery channels as prescribed.

No deviations or exemptions shall normally be permitted in the documents specified for account opening. In case of any extreme cases of exceptions, concurrence of Policy section should be obtained duly recording the reasons for the same.

The NBFC 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. EIL's Board through Audit Committee and Asset Liability Management Committee will directly evaluate and ensure adherence to the KYC policies and procedures, including legal and regulatory requirements.

EIL has already ensured that all departmental staffs are aware that no loan accounts will be created unless the KYC procedures are adhered to completely.

Periodical review of risk categorization of customer accounts will be carried out. EIL will have a system of periodical updation of customer identification data (including photograph/s) after the account is opened. Since EIL being a Non Deposit Accepting NBFC will not have any deposit accounts, this situation will hardly arise, but EIL will in any case pay special attention to the above.

#### **3. Introduction of New Technologies:**

3.1. EIL will pay special attention to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity and take measures, if needed, to prevent its use in money laundering schemes. Since EIL being a Non Deposit Accepting NBFC will not have any deposit accounts, this situation will hardly arise, but EIL will in any case pay special attention to any money laundering threats as above.

#### **4.Appointment of Designated Director:**

4.1. "Designated Director" means a person designated by the reporting entity (bank, financial institution, etc.) 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,
  - (ii) the Managing Partner if the reporting entity is a partnership firm,
  - (iii) the Proprietor if the reporting entity is a proprietorship concern,
  - (iv) the Managing Trustee if the reporting entity is a trust,
  - (v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity, if the reporting entity is an unincorporated association or a body of individuals, and
  - (vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above.
- 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. The name, designation and address of the Designated Director is to be communicated to the Director, FIU-IND on any new appointment or change. In addition it is the duty of the Designated Director to observe the procedures and manner of furnishing and reporting information on transactions related to STR / CTR / CCR / NTR / CBWTR.

4.2. The Board of Directors of EIL has appointed Managing Director be nominated & designated as "Designated Director" to ensure overall compliance with the obligations imposed under chapter IV of the PML Act.

## **5. Appointment of Principal Officer:**

5.1. EIL should appoint a senior officer to be designated as Principal Officer for KYC/AML/CFT compliance. Principal Officer for KYC/AML/CFT compliance shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. The Principal Officer will maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

5.2. Further, the role and responsibilities of the Principal Officer for KYC/AML/CFT compliance should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made there-under, as amended from time to time.

5.3. The Principal Officer for KYC/AML/CFT compliance will also be responsible for timely submission of CTR / STR / CCR / NTR / CBWTR to FIU-IND.

5.4. With a view to enabling the Principal Officer for KYC/AML/CFT compliance to discharge his responsibilities effectively, the Principal Officer for KYC/AML/CFT compliance and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information. The name, designation and address of the Principal Officer for KYC/AML/CFT is to be communicated to the Director, FIU-IND and the RBI on any new appointment or change.

5.5. The Board of Directors has appointed Mrs. Urmi Chaoudhury, Chief Compliance & Company Secretary who will be designated as the Principal Officer for KYC / AML / CFT compliance.

Since EIL being a Non Deposit Accepting NBFC will not have any deposit accounts, this situation will hardly arise, but EIL will in any case pay special attention to KYC/AML/CFT compliance.

#### **6. Maintenance and Preservation of records:**

**6.1.** EIL has a system of maintaining proper record of transactions as required under Prevention of Money-Laundering Act and value of transactions, the procedure and manner of maintaining and verification and maintenance of records of the identity of the clients, as mentioned below:

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

**(ii)** all series of cash transactions integrally connected to each other which have been valued below Rs. 10 lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rs. 10 lakh;

**(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;

**(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.

Since EIL being a Non Deposit Accepting NBFC will not have any deposit accounts, this situation will hardly arise, but EIL will in any case pay special attention to the above.

**6.2.** EIL is required to maintain the following information in respect of transactions referred above:

- (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.

6.3. EIL has an appropriate 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.

6.4. The necessary records of transactions, both domestic or international which permits 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 are maintained for at least ten years from the date of cessation of transaction between EIL and the client.

6.5. All the records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least ten years after the business relationship is ended. The identification records and transaction data are made available to the competent authorities upon request.

6.6. EIL 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.

## **7. Maintenance of records/ transactions reporting to Financial Intelligence Unit-India (FIUIND) and its powers:**

7.1. Section 12 of the PMLA, 2002 casts certain obligations on the banking / NBFC companies in regard to preservation and reporting of customer account information. Accordingly, the bank shall maintain/report the following in this regard.

7.2. Information to be preserved: Bank / NBFC shall maintain all necessary information in respect of transactions referred to in PML Rule 3 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.



7.3. EIL will ensure that the provisions of PMLA Rules framed and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

7.4. Formats prescribed by RBI to be filed with FIU-ID from time to time in terms of Master Circular are altogether five reporting formats prescribed for a banking company viz.

- i) Manual reporting of cash transactions
- ii) Manual reporting of suspicious transactions
- iii) Consolidated reporting of cash transactions by Principal Officer of the bank
- iv) Electronic data structure for cash transaction reporting and
- v) Electronic data structure for suspicious transaction reporting which are enclosed to this circular. The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND.

#### **7.5. Reporting to Financial Intelligence Unit-India:**

**a)** In terms of the PMLA rules, banks are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

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

**b)** Banks should carefully go through all the reporting formats. There are altogether eight reporting formats, as detailed in Annex II, viz. i) Cash Transactions Report (CTR); ii) Summary of CTR iii) Electronic File Structure-CTR; iv) Suspicious Transactions Report (STR); v) Electronic File Structure-STR; vi) Counterfeit Currency Report (CCR); vii) Summary of CCR and viii) Electronic File Structure-CCR. The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND. It would be necessary for banks to initiate urgent steps to ensure electronic filing of all types of reports to FIU-IND. The related hardware and technical requirement for preparing reports in an electronic format, the related data files and data structures thereof are furnished in the instructions part of the concerned formats.

**c)** FIU-IND have placed on their website editable electronic utilities to enable banks to file electronic CTR/STR who are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data base. It is, therefore, advised that in cases of banks, where all the branches are not fully computerized, the Principal Officer of the bank should cull out the transaction details from branches which are not yet computerized and suitably arrange to feed the data into an electronic file with the

help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND in their website <http://fiuindia.gov.in>.

d) In terms of instructions contained in paragraph 2.3(b) of this Master Circular, banks are required to prepare a profile for each customer based on risk categorisation. Further, vide paragraph 2.7, the need for periodical review of risk categorisation has been emphasized. It is, therefore, reiterated that banks, as a part of transaction monitoring mechanism, are 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.

### **7.5.1 Cash Transaction Reports (CTR)**

a) While detailed instructions for filing all types of reports are given in the instructions part of the related formats, banks should scrupulously adhere to the following:

i) The Cash Transaction Report (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month. Cash transaction reporting by branches to their controlling offices should, therefore, invariably be submitted on monthly basis (**not on fortnightly basis**) and banks should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

ii) All cash transactions, where forged or counterfeit Indian currency notes have been used as genuine should be reported by the Principal Officer to FIU-IND immediately in the specified format (Counterfeit Currency Report – CCR). These cash transactions should also include transactions where forgery of valuable security or documents has taken place and may be reported to FIU-IND in plain text form.

iii) While filing CTR, details of individual transactions below Rupees Fifty Thousand need not be furnished.

iv) CTR should contain only the transactions carried out by the bank on behalf of their clients/customers excluding transactions between the internal accounts of the bank.

v) A summary of cash transaction report for the bank as a whole should be compiled by the Principal Officer of the bank in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted.

### **7.5.2 Suspicious Transaction Reports (STR):**

i) While determining suspicious transactions, banks should be guided by definition of suspicious transaction contained in PMLA Rules as amended from time to time.

ii) It is likely that in some cases transactions are abandoned/aborted by customers on being asked to give some details or to provide documents. It is clarified that banks should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

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

iv) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such report should be made available to the competent authorities on request.

v) In the context of creating KYC/AML awareness among the staff and for generating alerts for suspicious transactions, banks may consider the indicative list of suspicious activities contained in Annex-E of the 'IBA's Guidance Note for Banks, 2005'.

vi) Banks should not put any restrictions on operations in the accounts where an STR has been made. Moreover, it should be ensured that there is no **tipping off** to the customer at any level.

### **7.5.3 Customer Education/Employee's Training/Employee's Hiring**

#### **a) Customer Education**

Implementation of KYC procedures requires banks to demand certain information from customers which may be of personal nature or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for banks to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme.

The front desk staff needs to be specially trained to handle such situations while dealing with customers.

#### **b) Employees' Training:**

Banks must have an ongoing employee training programme so that the members of the staff are adequately trained in KYC procedures. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

#### **c) Hiring of Employees:**

It may be appreciated that KYC norms/AML standards/CFT measures have been prescribed to ensure that criminals are not allowed to misuse the banking channels. It would, therefore, be necessary that adequate screening mechanism is put in place by banks as an integral part of their recruitment/hiring process of personnel.