



## **Karvy Data Management Services Ltd**

### **PREVENTION OF MONEY LAUNDERING POLICY**

#### **REVISION CONTROL**

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## 1. Background:

The Prevention of Money Laundering Act, 2002 (PML Act) has been brought into force with effect from 1st July 2005 and summarizes the procedure for prevention of anti- money laundering and terrorist financing in India.

Securities and Exchange Board of India (SEBI) has issued necessary directives vide circulars, from time to time, covering issues related to Know Your Client (KYC) norms, Anti- Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). SEBI has also issued a Master Circular SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023, to all intermediaries registered under Section 12 of the SEBI Act 1992, providing Guidelines on Anti money Laundering Standards (Guidelines).

As KYC Registration Agency ("KRA"), fall under the category of Intermediaries under Section 12 of SEBI Act – 1992, the guidelines are applicable for the aforesaid project of KDMISL Data Management Services Limited ("KDMISL"). Additionally, the Central Government, through Notification F. No. P.12011/2/2009-ES Cell-DOR dated July 07, 2023, has made an amendment to the notification under the PML Act.

## 2. What is Money Laundering?

Money Laundering, as explained in the act, is moving illegally acquired cash through financial systems so that it appears to be legally acquired.

There are three common stages of money laundering as detailed below which are resorted to by the launderers and Market Intermediaries which may unwittingly get exposed to a potential criminal activity while undertaking normal business.

Placement - the physical disposal of cash proceeds derived from illegal activity;

Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and provide anonymity.

Integration – placing the laundered proceeds back into the economy creating the impression of apparent legitimacy to criminally derived wealth.

Using the above methods the laundered proceeds re-enter the financial system appearing to be normal business funds. Market Intermediaries are therefore placed with a statutory duty to make a disclosure to the authorized officer when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of drug trafficking or of a predicated offence, or was or is intended to be used in that connection is passing through the Market Intermediaries. Law protects such disclosures, enabling the person with information to be able to disclose the same without any fear. Market Intermediaries likewise need not fear of breaching their duty of confidentiality owed to customers.

### 3. Anti-Money Laundering Program:

In order to discharge the statutory responsibility to detect possible attempts of money laundering, financing of terrorism or any other proceeds of crime, Market Intermediaries need to have an AML program that should, at a minimum, include:

- Principal Officer;
- Internal policies, procedures, and controls;
- Recruitment of staff;
- Training of KDMISL employees, Intermediaries;
- Identifying and reporting suspicious KYCs to FIU-IND;
- Record Keeping and retention of records;
- List of designated individuals and entities;
- Procedure for freezing of KYC records for further usage;
- Review of the PML policy.

This document details the AML Program adopted by the Company.

a. Principal Officer:

Appointment: KDMISL shall identify and appoint a senior official to act as Principal Officer under the provisions of PML Act. In addition to Principal Officer, KDMISL shall also appoint an Alternate Officer, when the notified Principal Officer is not available due to any reasons. Principal Officer and Alternate Principal Officers shall be of sufficient seniority and shall have direct access to the top management and documents. Managing Director & CEO shall be the competent authority for identifying the Principal and Alternate Officers.

Responsibilities:

The Principal Officer and the Alternate Officer will ensure that:

- The Board approved PML Policy is implemented effectively;
- KDMISL shall examine the KYC records maintained with KDMISL KRA and those of clients onboarded for KRA based on set parameters and shall report KYCs and client records of suspicious nature to SEBI, FIU-IND and other statutory authorities;
- KDMISL shall respond promptly to any request for information made by the regulators, SEBI, FIU-IND and other statutory authorities;
- KDMISL shall act as facilitator between FIU-IND, SEBI and the Intermediaries for effective implementation of the AML program;
- KDMISL staff shall be trained to address issues regarding the application of the PML Act;
- The Staff selection and training process shall comply with the KDMISL's PML policy and
- Any other responsibilities assigned by MD & CEO or any other official authorized by MD & CEO from time to time.

b. Internal policies, procedures, and controls: SEBI from time to time issues circulars/directives with regard to Know Your Client (KYC), Client Due

Diligence (CDD), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) specifying the minimum requirements. Such information shall be disseminated by KDMISL by way of Communiques. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of money laundering and suspicious transactions undertaken by clients. KDMISL shall ensure that Intermediaries are regularly updated regarding any changes/ additions/ modifications issued via circulars/directives in relation to PML Act.

c. Know Your Client (KYC)/ Customer Due Diligence (CDD): Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the identity of an investor. KDMISL for its KRA services mainly caters to intermediaries like Depository participants, Brokers, AMCs and RTAs, who collect, verify and upload the KYC soft copy documents from the investor to KDMISL for verification/validation. The obligations to undertake CDD is cast on intermediaries and the SEBI KRA Regulations, 2011 substantially define the roles and responsibilities of Intermediary and the KRAs. Investors are required to approach the intermediary for opening the account and performing other financial and non-financial due diligence. While on boarding an investor, an Intermediary obtains copies of the mandatory documents that are prescribed by SEBI either online or in physical mode and verifies the same with the originals as per the procedure laid down in the Intermediaries operating instructions & communiqués issued by KDMISL from time to time. Such communiqués are issued to the Intermediaries based on mandatory requirements given by SEBI and based on operational requirements. Intermediaries, should, therefore, put in place effective procedures to obtain requisite details for proper identification of new customers.

As a part of client identification procedure, KDMISL shall obtain mandatory documents as prescribed by SEBI/other Regulators and conduct CDD for KRA project before onboarding clients.

KDMSL shall ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency in India as contained under First Schedule of Unlawful Activities (Prevention)Act, 1967 (UAPA) and worldwide which can be accessed at <http://www.un.org>.

Financial Action Task Force (FATF) identifies countries that do not or insufficiently apply the FATF Recommendations and publishes the list of such countries on its website ([www.fatf- gafi.org](http://www.fatf- gafi.org)). KDMSL shall undertake adequate measures to identify and report KYCs falling in such jurisdictions to SEBI/Regulatory Authorities.

- d. Identifying & reporting Suspicious Records to SEBI/ FIU-IND/Other Regulators: For KRA services, KDMSL shall maintain onboarding documents of its intermediaries such as application and supporting documents in electronic format. Further the KYC records received from Intermediaries would maintained by KDMSL as part of its obligations as a KRA. The transaction activities of investors and the details regarding the origin, form, destination of funds, financial profile of the investor etc. will not be available with the KDMSL. The responsibility of the KYC rests with the intermediary and KDMSL in its capacity as KRA verifies and validates the documents submitted by the intermediaries. Besides, the intermediaries who use KDMSL system for the purpose of KYC profiling of their clients are directly registered with FIU-IND and would be directly responsible for such reporting.
  
- e. Record Keeping and Retention of Records: PML Act requires every reporting entity to maintain records of all transactions, furnish information of prescribed transactions to Director, FIU-India and to verify the identity of their clients and their beneficial owners in the manner prescribed.

The reporting entities are also required to preserve records of transactions and records of identity of clients for a period of five years from the date of cessation of the transactions between the clients. Accordingly, as required under PML Act, KDMISL shall maintain the records for KRA.

- f. Recruitment of KDMISL employees: KDMISL shall ensure to undertake adequate screening procedures when hiring employees to ensure that the employees dealing with PML Act requirements are suitable and competent to discharge their duties.
- g. Training of KDMISL employees: KDMISL shall conduct PMLA awareness program on annual basis or as needed for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA.
- h. Review of Policy: KDMISL shall review the aforesaid policy at regular intervals.

The Managing Director or any other authorized official shall be the authority to give directions for review of policy and undertake additions, changes, modifications etc. as directed by SEBI / FIU-IND.