



INDIAN RAILWAY FINANCE CORPORATION LIMITED

KNOW YOUR CUSTOMER" (KYC) & PREVENTION OF MONEY LAUNDERING ACTIVITIES (PMLA) POLICY

Approved on | 11.11.2019

"Know Your Customer" (KYC) & Prevention of Money Laundering Activities (PMLA) Policy

Preamble:

Policy on Know Your Customer (KYC) and Prevention of Money Laundering Activities (PMLA) is in line with the guidelines of Reserve Bank of India advised vide Master Direction no. RBI/DBR/2015-16/18 DBR.AML.BC. No.81/14.01.001/2015-16 ("KYC Directions, 2016") on the subject dated February 25, 2016 and updated on August 09, 2019. Accordingly, the following KYC and PMLA Policy have been adopted by the Board suitably, for INDIAN RAILWAY FINANCE CORPORATION LIMITED ('the Company/ IRFC), as amended from time to time.

KYC and PMLA Policy:

(I) Objectives:

To have a clearly laid out:

- (1)** Customer acceptance policy;
- (2)** Risk Management policy;
- (3)** Customer Identification process; and
- (4)** Monitoring of transactions. with a view to:-
 - a. put in place an effective system and procedure for Customer identification and verifying its / his / her identity and residential address and conduct Customer due diligence (CDD) based on the risk factor associated with each Customer;
 - b. have in place a system of assessing and monitoring the risk factors associated with each Customer;
 - c. put in place a system of checks and balances to ensure formulation and effective implementation of procedures to help control and mitigate the risk of occurrence of financial frauds, swiftly identify probable transactions of money laundering and related suspicious activities and safeguarding Company from being unwittingly used as a conduit for transfer or deposit of funds derived from criminal activity or for financing of terrorism, irrespective of whether such money can be traced to a specific act of terrorism or not;
 - d. monitor transactions of a suspicious nature and report the same to the Management; verification and maintenance of records of transactions of Customers in accordance with PMLA and the Rules made thereunder;

(II) **Definitions** : For the purpose of this Policy,

(1) **“Customer”** means a person or entity who:

For the purpose of KYC Norms, a ‘Customer’ is defined as a person who is engaged in a financial transaction or activity with IRFC and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

(2) **‘Beneficial Owner (BO)’** in relation to a Customer is a person or an entity who is to be considered a beneficiary of the financial transaction entered in to with the Company by the Customer. A list of persons who are to be considered as such BOs in relation to a Customer is given below:

Type of Customer	Persons to be considered Beneficial Owners (BOs)
In case of 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.	(a) Controlling ownership interest – ownership of/entitlement to more than 25 percent of the shares or capital or profits of the Company; (b) Control shall include 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.
In case of partnership firm , 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.	15 per cent of capital or profits of the partnership.

<p>In case of unincorporated association or body of individuals or societies, 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.</p>	<p>More than 15 per cent of the property or capital or profits of the unincorporated association or body of individuals or society.</p>
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Note: Where no natural person is identified as per the above table, the beneficial owner is the relevant natural person who holds the position of senior managing official.

Other terms/provisions not specifically defined here shall have the same meaning/application as assigned to them under the KYC Directions, 2016 or Prevention of Money Laundering Act, as amended from time to time.

(III) Customer Acceptance Policy, Risk Management, Customer Identification Procedure (CIP), Monitoring of Transactions:

(1) Customer Acceptance policy (CAP):

- (a) Customers should fulfill all criteria related to submission of Officially Valid Documents (OVD) as defined by RBI from time to time and more specifically stated under the Customer Identification Procedure in the table set out separately.
- (b) IRFC shall refrain from opening an account, where IRFC is unable to apply appropriate Customer Due Diligence (CDD) measures.
- (c) In the event, the Customer is permitted to act on behalf of another person/entity, IRFC shall verify that the Customer has the necessary authority to do so by scrutinizing the authorizing document/s;
- (d) An account shall not be opened in an anonymous or fictitious/ benami name(s)/ or customers whose name appears in the sanctions lists circulated by Reserve Bank of India.
- (e) 'Optional'/additional information, shall have to be obtained from the Customer if the Company finds its necessity for further due diligence. The objective of obtaining such information has to be specified and the consent of the customer has to be obtained in such cases.

- (f) CDD Procedure shall be followed for all the joint account holders, while opening a joint account.

Closure of Accounts/Termination of Financing/Business Relationship:

Where IRFC is unable to apply appropriate KYC measures due to non-furnishing of information and/or non-operation by the customer, IRFC shall terminate Financing/Business Relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decision shall be taken with the approval of Managing Director.

(2) Risk Management:

- (a) Risk categorization of Customers shall be undertaken on the basis of various factors, such as nature of employment, business activity of the Customer, location of Customer and his/its clients, mode of payments, volume of turnover, social / financial status and credit history.
- (b) The company may categorize its Customers into 'High Risk/Medium Risk/ Low Risk' according to its applicable credit policy and review it from time to time. The Company may devise procedures for creating risk profiles of its existing and new Customers and apply various Anti-Money Laundering measures keeping in view the risks involved in a financial transaction or a business relationship.

The risk category of the customers shall be categorized into three levels:

- Level A – Low Risk
- Level B – Medium Risk
- Level C – High Risk

The indicative categorisation of customers may be as under:

The following customers shall be categorized as Level A risk customer :

- Government Bank, Government NBFCs and Government FIs registered with statutory bodies like RBI.
- Government Departments & Government owned Companies, Regulators and Statutory Bodies etc. and Central Board of Trustees.

The following customers shall be categorized as Level B risk customer :

- Private Bank, Private NBFCs and Private FIs registered with statutory bodies like RBI. Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile.
- Salaried employees.

The following customers shall be categorized as Level C risk customer :

- Private Trusts, Charities, NGOs and organizations receiving donations.
- Firms with 'Sleeping Partners'.

(3) Customer Identification Procedure:

- IRFC shall ensure that Customer identification process is undertaken, whenever an account based relationship is being established.
- While undertaking Customer identification, IRFC shall ensure that the decision-making functions of determining compliance with KYC shall not be outsourced.
- IRFC shall be adequately satisfied with the information furnished by Customer with respect to identity of the Customer and the purpose of the intended nature of relationship with IRFC. The satisfaction of IRFC with respect to the information/ documents furnished by the Customers should be such that if circumstances necessitate, IRFC shall ensure that it is in a position to satisfy the competent authorities that CDD was duly observed by IRFC, based on the risk profile/categorization of the Customer.
- As stated in the Customer Acceptance Policy, IRFC shall ensure that Customer is not a fictitious person by verifying the identity of the Customer through documentation and shall also carry out necessary checks, so as to confirm 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..
- One or more of the following valid self-attested documents may be called for from the Customers as **Officially Valid Documents (OVD)**, containing details of proof of their identity and address:

Type of Customer	Officially Valid Documents
<p><u>In case of Individuals</u></p>	<p>Identity proof: (Copy of one of the following)</p> <ul style="list-style-type: none"> • Passport • Driving License • Income Tax PAN Card • Voter's Identity Card • Aadhar Card <p>Residence proof: (Copy of one of the following)</p> <ul style="list-style-type: none"> • Utility Bill (Latest Telephone /Post-paid mobile / Electricity bill) • Property or Municipal Tax receipt • Bank Account or post office savings bank account statement

	<ul style="list-style-type: none"> • Passport • Driving License • Voter's Identity Card • Aadhar Card • A copy of the marriage certificate or Gazette notification, in case of change in name
<p><u>In case of Non-Individual (As applicable)</u></p>	<p>Identity & Residence proof (Copies of the following)</p> <ul style="list-style-type: none"> • Income Tax PAN Card • Incorporation Certificate & Memorandum & Articles of Association (Registration Certificate & Deed, in case of Partnership firm/Trust). • VAT/Service Tax registration / Shops & Establishment Certificate, as applicable • List of Directors/Partners/Trustees alongwith their OVDs as above. • Latest shareholding pattern, alongwith the list of major shareholders having more than 25% of holding, in case of Company. • Utility bill

(f) The e-KYC service of Unique Identification Authority of India (UIDAI) shall be accepted as a valid process for KYC verification under the PML Rules.

(4) Simplified procedure for opening accounts by Non-Banking Finance Companies (NBFCs):

In case a person who desires to open an account is not able to produce KYC documents, IRFC may at its discretion open accounts by following the simplified procedure, as may be directed by RBI from time to time.

If an existing KYC-compliant Customer of IRFC desires to open another account with IRFC, there shall be no need for a fresh CDD exercise.

(5) Identification of Beneficial Owner:

For opening an account of a Legal Person who is not a natural person, the beneficial owner(s) shall be identified and all reasonable steps to verify his/her identity shall be undertaken keeping in view the following:

- (a) Where the Customer 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.
- (b) In cases of trust/nominee or fiduciary accounts, whether the Customer is acting on behalf of another person as trustee/nominee or any other intermediary is to be determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the trust or other arrangements in place shall be obtained.
- (c) In cases of societies accounts, whether the Customer is acting on behalf of another person as member of the society or any other intermediary is to be determined. In such cases, satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also details of the nature of the society or other arrangements in place shall be obtained.

(6) Monitoring of Transactions:

- (a) The Company shall promptly report cash transactions or transactions of a suspicious nature to the appropriate regulatory and investigating authorities, as per the provisions of the PMLA and the Rules.
- (b) 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 sensitivity of the account and special attention will be given to all complex unusually large transactions, which have no apparent economic or lawful purpose.
- (c) IRFC 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 and non-cooperative jurisdictions with respect to compliance with the FATF Recommendations, 2012.

(7) On-going Due Diligence:

IRFC shall undertake on-going due diligence of Customers to ensure that transactions are consistent with its knowledge about the Customers, Customers' business and risk profile; and the source of funds. The extent of monitoring shall be aligned with the risk category of the Customer.

(8) Periodic Updation:

Periodic updation shall be carried out at least once every one year, for high risk Customers, once every two years, for medium risk Customers and once every three years, for low risk Customers.

(9) Enhanced Due Diligence:

Accounts of Politically Exposed Persons (PEPs):

Generally, the Company would not open accounts of PEP. Decision to deal with such persons as a Customer shall be taken up at a senior management level and shall be subjected to enhance monitoring.

(10) Client accounts opened by professional intermediaries:

Owing to the fact that accounts may be (i) opened by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds or (ii) managed by lawyers/chartered accountants or stockbrokers for funds held 'on deposit' or 'in escrow' for a range of clients, IRFC shall ensure identification of all beneficial owners in respect of such accounts. Further, IRFC shall also ensure that the CDD conducted by the intermediaries is in line with KYC requirements mandated by RBI.

IRFC shall ensure that no professional intermediary, who cannot reveal the identity of a Customer, should be allowed to open such an account with it.

(11) Simplified KYC norms for Foreign Portfolio Investors(FPIs):

Accounts of FPIs which are eligible/ registered as per SEBI guidelines, for the purpose of investment under Portfolio Investment Scheme (PIS), shall be opened by accepting KYC documents as prescribed by RBI, subject to Income Tax [Foreign Account Tax Compliance Act (FATCA)/ Common Reporting Standards (CRS)] Rules.

(12) Information obtained from Customers:

All the information collected from the Customers by IRFC shall be kept confidential and all such information shall be treated as per the agreement/terms and conditions signed by the Customers. Additionally, the information sought from each Customer should be relevant to the risk perceived in respect of that particular Customer, should not be intrusive and should be in line with the guidelines issued by the RBI in that behalf.

(13) Record Management:

IRFC shall take steps in the direction of maintenance and preservation of the records pertaining to KYC and transactions for the time duration of 5 years for KYC-related and transaction-related documents as prescribed by RBI.

(14) Other Requirements:

All other requirements under FATCA/CRS/PML/ relating to appointment of designated officer/director, principal officer and reporting requirements relating to filling of Suspicious Transaction Report (STR), Cash Transaction Report (CTR), counterfeit currency report (CCR) and other applicable reports filling under FATCA will be complied with in terms of the direction of the RBI or the other authorities to the extent applicable to IRFC.

(15) Principal Officer:

The Company shall designate an official of the rank of general manager or equivalent, who shall act as a central reference point in facilitating onward reporting of transactions to Management.

(16) Designated Director:

The Company shall nominate the Managing Director, who oversees the operations of the Company, as the Designated Director of the Company under the Prevention of Money laundering Act, 2002 and Rules framed thereunder, from time to time. IRFC shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, Management.

(17) CDD Procedure and sharing KYC information with Central KYC Records Registry(CKYCR):

IRFC shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, as amended from time to time. Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR.

(18) Customer Education & Awareness:

The above policy along with relevant forms shall be hosted on IRFC's website i.e. www.irfc.nic.in to educate the customer of the objectives of the KYC / AML/ programme. While dealing with customers, Dealing Officers and Staff in IRFC shall take special care in obtaining required information from the client.

(19) Employee's Training:

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

(20) Updation in KYC Policy of Company

MD of IRFC will be authorised to amend/modify the KYC/AML/ Policy or such other related guidance notes of Company, to be in line with RBI or such other statutory authority's requirements/ updates/ amendments time to time.