Association of Mutual Funds in India

Minimum Standards Recommendations

on

Anti-Money Laundering

Combating Financing of Terrorism

&

Know Your Customer Policy

January

2024

Contents

1. Purpose of this document:

This document is intended to be recommendatory in nature towards a policy framework on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) for Mutual Funds in India and details the processes that are recommended to be followed by Asset Management Companies (AMC's) as a minimum standard in meeting the various obligations of the AMCs on AML / CFT as stipulated under the Prevention of Money Laundering Act, 2002 and the Prevention of Money Laundering Rules, 2005, as amended from time to time, Master Circular dated February 03, 2023 issued by Securities & Exchange Board of India (SEBI) and other circulars issued by SEBI up to date.

2. Regulatory Framework

a. Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) is a 39-member inter-governmental body established in 1989 that sets international standards and leads global action to tackle money laundering, terrorist and proliferation financing. As a policy-making body, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF research how money is laundered and terrorism is funded, promotes global standards and issues publications like 'FATF Recommendations' to mitigate the risks, and assesses whether countries are taking effective action. In total, more than 200 countries and jurisdictions have committed to implement the FATF's Standards as part of a coordinated global response to preventing organized crime, corruption and terrorism. India is a full member of the FATF since June 2010.

b. AML / CFT - the Indian context

The Prevention of Money Laundering Act, 2002 ("the Act"/"PMLA") along with the Rules framed there under were brought into force from July 1 , 2005 and has been subsequently amended from time to time. It is applicable to entities like:

1. Banking companies
2. Financial Institutions
3. Financial Intermediaries registered with SEBI and any other intermediary associated with the securities market and registered under Section 12 of the Securities and Exchange Board of India Act, 1992.
4. Intermediaries regulated by Pension Fund Regulatory and Development Authority.
5. Designated Non-Financial Business and Professions (DNFBP) notified by Central Government which include Casinos and Inspector General of Registration.

Definition of Money Laundering:

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[1] *As on July 01, 2023– Source: www.fatf-gafi.org*

Chapter II of Section 3 of PMLA defines offence of money laundering as "*whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the [proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming] it as untainted property shall be guilty of offence of money-laundering*".

[Explanation –For the removal of doubts, it is hereby clarified that, -

(i) a person shall be guilty of offence of money – laundering if such person is found to have directly or indirectly attempted to indulge or knowingly assisted or knowingly is a party or is actually involved in one or more of the following processes or activities connected with proceeds of crime, namely: -

(a) concealment; or

(b)possession; or

(c)acquisition; or

(d)use; or

(e)projecting as untainted property; or

(f)claiming as untainted property,

in any manner whatsoever;

(ii) the process or activity connected with proceeds of crime is a continuing activity and continues till such time a person is directly or indirectly enjoying the proceeds of crime by its concealment or possession or acquisition or use or projecting it as untainted property or claiming it as untainted property in any manner whatsoever.]"

It prescribes obligations of reporting entities for verification and maintenance of records of the identity of all its clients and also of all transactions and for furnishing information of these transactions in prescribed form to the Financial Intelligence Unit-India (FIU-IND).

"Proceeds of crime" not only include property derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relatable to the scheduled offence.

c. Financial Intelligence Unit – India

Financial Intelligence Unit – India (FIU-IND) was set by the Government of India vide Office Memorandum dated November 18, 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND aids in coordinating and strengthening, collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes. FIU-IND is an independent body reporting to the Economic Intelligence Council (EIC), headed by the Union Finance Minister of India and since 2016 is under the administrative control of Department of Revenue, Ministry of Finance.

Failure to meet obligations by intermediaries empowers the Director - FIU-IND to:

- issue a warning in writing; or
- direct such reporting entity or its designated director on the Board or any of its employees, to comply with specific instructions; or
- 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
- by an order, impose a monetary penalty on such reporting entity or its designated director on the Board or any of its employees, which shall not be less than ten thousand rupees but may extend to one lakh rupees for each failure.

d. SEBI Guidelines on Anti-Money Laundering and Combating Financing of Terrorism

SEBI vide its Master circular dated February 3, 2023 updated from time to time has issued guidelines on Anti Money Laundering Standards which mandated that all concerned *intermediaries* should ensure that a proper policy framework is put in place and they should be updated periodically. AMC's are also an intermediary (therefore a reporting entity also) under Section 12 of the SEBI Act. All intermediaries are required to designate a person as "Principal Officer (PO)" who is responsible for ensuring compliance of the provisions of the Act and liaise with the relevant authorities. The Principal Officer should be an official with sufficiently high position, independence and authority. All intermediaries are required to work within the overall ambit of the Act and Guidelines issued by SEBI in this context. Over the years, SEBI has issued various circulars with guidelines / directives vis-à-vis procedures and obligations on AML / CFT. These circulars also lay down the minimum requirements of controls and due diligences to address concerns of money laundering and suspicious transaction undertaken by clients. Directives to all intermediaries registered under SEBI are issued to ensure compliance with the standards set by FATF and FIU-IND on AML and CFT. These directives, *inter alia*, relate to:

a. Know Your Customer (KYC) norms
b. Client Due Diligence (CDD)
c. Establishing Beneficial Ownership
d. Monitoring of Transactions
e. Record keeping and Retention
f. Suspicious Transaction Monitoring & Reporting
g. Staff Hiring Policies and Training Programs

3. Roles and responsibilities of the AMCs

The broad responsibilities of AMCs, *inter alia,* include –

- Appointment of a Designated Director and a Principal Officer
- Management Overview on KYC & Suspicious Transactions Reporting (STR) obligations
- Client Acceptance Policy and its periodic updation as required
- Adequate Client Due Diligence / Enhanced Due Diligence throughout the client relationship
- Monitoring of Clients of Special Categories
- Identification of Beneficial Ownership
- AML and CFT Risk Management
- Alert monitoring and reporting using AMFI alerts, Red Flag Indicators issued by FIU-IND and other AMC adopted criteria, if any
- Suspicious transactions review & its reporting to FIU-IND
- Screening w.r.t list of designated Individuals/entities as mentioned in SEBI Master Circular dated February 03, 2023 and other circulars issued by SEBI from time to time
- Reporting transactions of Non-Profit Organizations to FIU-IND
- Record keeping / Retention of documents
- Ensure periodic Internal Audit of AML regime
- Staff Hiring Standards & continuous training programs

Important:

i. The Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2013 made it obligatory for reporting entities to appoint a Designated Director. This role assumes significance as it obligates such a person designated by the reporting entity to "ensure overall compliance with the obligations" of the PML Act and Rules.

ii. The Principal Officer of any Asset Management Company (AMC) is the key officer responsible for implementation of an AML regime. He / she would be responsible for the implementation of internal controls and procedures for identifying and reporting any suspicious transaction or activity to the concerned authorities, updation of policies and ensuring staff training on an ongoing basis. The Principal Officer is normally the one point contact for all interaction with the FIU-IND with regard to any reporting. He / she shall have access to and be able to report to senior management at the next reporting level or Board of Directors of the AMC.

iii. It is recommended that an internal AML Committee (or any such committee for eg: Risk Management Committee) may be set up comprising of the Principal Officer (PO) and at least two members of sufficient seniority / experience to ensure unbiased judgment, independence and no internal conflict of interest. The objective of recommending an AML committee is to enable greater scrutiny and validation of potentially reportable STR's, consider whether all possible factors were considered while arriving at a decision to report cases, that there is no individual prejudice towards a particular investor, so that a certain degree of collective judgment is applied while finalizing STRs. In that, besides the PO, other members would act independently and as facilitators in decision making, offer their considered views and opinions on related matters besides providing their stamp of approval to report STRs. They could also discuss general compliance, new regulations / legislations, co-approve of PEP relationships, help interpret FATF guidance(s) etc. It must be understood that AML/CFT policy making essentially remains the role of a PO, which may be decided / finalized in consultation with the Designated Director and approval by the AMC's Board. The AML committee in such instances may offer their views on such policies prior to its finalization.

iv. Besides this, AMC's may decide on various approaches to manage and collate information at the regional level to support the central AML team. One such approach that could be considered is designating experienced staff as AML Coordinators (AMLCs). Their role could *inter alia* include conducting training of staff, assist HO in any required manner, sharing of local media reports and any other support activity to assist the central AML team. AMLCs are expected to be familiar with local events and generally function as feeders of predicate offence related news to HO, assist in EDD of clients etc. Needless to add, confidentiality has to be maintained of the highest standards by them. In case AMC's decide to designate staff as AMLCs, they may want to conduct periodic "train the trainer" programs for AMLCs for effectiveness of their AML regime. They may also send in periodic reports as desired by the Principal Officer in respect of activities carried out, especially EDD and staff training.

v. Principal Officers of AMC's, who are part of a conglomerate, must adhere to a group policy on AML/CTF which must be communicated to all management and relevant staff whether in branches, departments and subsidiaries. Therefore, it is highly recommended that Principal Officers of such AMC's (forming part of a conglomerate), meet periodically with the group's Principal Officers to share best practices and general updates on the subject.

4. Obligations of the AMCs

In terms of the obligations under the provisions of the Act and Guidelines, the implementation plan could cover the following key requirements:

a. Know Your Customer (KYC)

i. Customer Acceptance Policy

Know Your Customer (KYC) refers to, the activities of customer due diligence that financial institutions and other regulated companies must perform to identify their clients and ascertain relevant information pertinent to doing financial business with them. All intermediaries have to follow a process to identify their investors and assess their risk profile. Intermediaries are not allowed to open or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified.

KYC compliance is mandatory for every client who invests with a Mutual Fund. Before the Fund decides to do business with a client, it should know who the client is. This is ensured by following prescribed KYC procedures for clients including meeting the investor personally or through the authorized distributors for in-person verification as well as verification of original officially valid documents which need to be submitted as proof of address and identity. Every individual will have to fill up a prescribed uniform KYC application form and support it with documents regarding identity i.e. PAN, proof of address, for e.g. Passport and a latest photograph. Further, details such as the investor's occupation, income, tax status, PEP details are required to be obtained by each intermediary. Additional documents to be submitted by non-individual entities which include details of promoters / partners / karta / trustees / whole time directors, as applicable. Certain category of investors have however been exempted from providing PAN, but need to complete other KYC formalities.

The exempt categories are as follows:

i. In case of transactions undertaken on behalf of Central Govt. and / or State Govt. and by officials appointed by Courts e.g. Official liquidator, Court receiver etc.
ii. Investors residing in the state of Sikkim. Under the KRA regime the investors of Sikkim are provided with the unique identification number by the KRA so as to identify them separately.
iii. UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India
iv. Micro investments up to ₹50,000 per annum (including permissible cash investments).

SEBI vide their Master Circular on Know Your Client (KYC) norms for the securities market dated October 12, 2023 and other circulars issued by SEBI from time to time. The purpose is to have uniform KYC norms for the securities market. In the KRA regime, a mechanism for centralization of the KYC records in the securities market has been developed. The KYC details of the investor will be shared amongst the KRAs in an interoperable mode *{Currently there are 5 KRAs, viz. NDML, CVL, KARVY, CAMS, NSE data & analytics (formerly known as DotEx)}*. This mechanism currently is in use for all existing investors and also for non-individual investors, alongside the CKYC system. While new investors are currently on-boarded under the provisions of CKYC norms, AMC's must make all efforts to cover existing investors who are KRA KYC compliant, under the CKYC norms.

ii. Ultimate Beneficial Owner(s):

SEBI Master Circular No. SEBI/HO/MIRSD-SEC-5/P/CIR/2023/022 dated February 3, 2023 on AML/CFT obligations and guidelines on identification of Beneficial Ownership issued by SEBI vide its Master Circular dated October 12, 2023, investors (other than Individuals) are required to provide details of Ultimate Beneficial Owner(s) ("UBO(s)") and submit proof of identity (viz. KYC acknowledgement if KYC complied or PAN with photograph or any other acceptable proof of identity prescribed in common KYC form) of UBO(s).

iii. Central KYC:

As per the amendment to PML (Maintenance of Records) Rules dated July 7, 2015 and SEBI circular number CIR/MIRSD/66/2016 dated July 21, 2016, the Government of India vide their notification dated November 26, 2015 authorized the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI), set up under sub-section (1) of Section 20 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002), to act as and to perform the functions of the Central KYC Records Registry under the said rules, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a "client", as defined in clause (ha) of sub-section (1) of Section 2 of the Prevention of Money-Laundering Act, 2002.

It is an initiative of the Government of India where the aim is to have a framework in place which allows investors to do their KYC only once. That means an investor can use the CKYC issued unique number (comprising 14 digits) to transact/deal with all entities governed/regulated by Government of India/Regulator (RBI, SEBI, IRDA AND PFRDA) without the need to complete multiple KYC formalities, which was an inconvenience/hindrance hitherto. Operationalizing of CKYCR has been spelt out in AMFI Best Practices Guidelines Circular number 68/2016-17 dated December 22, 2016, which should be the basis for AMC's to implement.

b. Transaction Acceptance Policy

As a financial market intermediary, AMC's need to maintain a record of all the transactions, the nature and value of which have been prescribed in the Rules under the PMLA. Most investments are made vide cheques / electronic funds transfers. As per AMFI best practice guidelines, no third party cheques are accepted for investments barring a few permissible exceptions. It is thus ensured that the funds for subscriptions are largely through a bank account where the first applicant is one of the account holders. Any transaction which does not meet the said criteria should not be accepted / processed.

Redemption / dividend payouts, if any, must be processed for direct credit into the bank account of the first unit holder electronically or paid vide cheque favoring the first unit holder along with the bank account details.

All officials at Investor Service Centers (ISCs) of AMC's which act as Official Points of Acceptance (OPOA) for any Fund including the front offices of Registrar and Transfer Agents (RTAs) must ensure that applications for purchase of units and applications for registration of systematic transactions received at the respective OPOA's are from investors who are KYC certified or where the KYC acknowledgement / duly completed KYC application form along with requisite valid documentation, is submitted with the investment application. In line with SEBI Circular number CIR/IMD/DF/ 21/2012 dated September 13, 2012, investments can be made by cash, subject to a limit of Rs. 50,000 per annum (limit revised vide SEBI circular dated May 22, 2014), per mutual fund from each investor. Such transactions must also be closely scrutinized as elaborated elsewhere in this note.

c. Client Due Diligence (CDD) and Enhanced Due Diligence (EDD)

The Act and Guidelines prescribe that investors should be subject to ongoing scrutiny throughout the course of a business relationship. It must be ensured that transactions are conducted in a manner consistent with the AMC's knowledge of a customer, their businesses, risk profile and also their declared income / source of funds, wherever possible. In order to ensure this, the Customer Due Diligence / Enhanced Due Diligence processes prescribed are as under:

i. **Risk based approach**:

A risk-based approach has been recommended under the SEBI guidelines wherein clients in certain special categories may be placed under increased monitoring and subject to an enhanced KYC. The level of Money Laundering risks that the Fund is potentially exposed to by an investor relationship largely depends on a few key factors. These are broadly:

- Transaction pattern of the client (complexity of transactions if any)
- Status of client (resident individual / non-resident / non-Individual)
- Value of investment with the Fund
- Type of product / service availed by the client
- Location of the client's domicile
- Client's business or profession
- Manner of remittance of funds
- Dubious background of clients (based on publicly available information)

ii. **Categorization of Investors.**

Investors must be continuously reassessed for categorization into various levels of risk viz., high, medium and low (see risk classification matrix below[2]). Depending on various factors like client occupation, income, investment value, tax status, PEP status, country of residence (in case of non-residents), their nationality, whether operating through power of attorney etc., investors must be assigned appropriate risk levels. This will enable AMC's to focus greater attention on high risk clients. Companies listed on the stock exchanges, are generally treated as low risk and may be white-listed. Similarly, investors with known credentials / acceptable background may be white-listed depending on the comfort / risk perception of each AMC.

[2] Meant to be only a framework and for illustration purposes. See footnote below the matrix

iii. Policy for establishing business relationship with Politically Exposed Persons:

SEBI Master circular SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169 dated October 12, 2023 & vide Gazette notification from Ministry of Finance (Department of Revenue) dated March 7, 2023 defines Politically Exposed Persons (PEPs) as individuals who are or have been entrusted with prominent public functions by a foreign country, including the Heads of States or of Governments, senior politicians, senior government / judicial / military officers, senior executives of state-owned corporations, important political party officials etc. Family members or close relatives of such individuals are also considered as PEPs.

SEBI Master Circular dated December 19, 2008 on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) - Obligations of Intermediaries under Prevention of Money Laundering Act, 2002 necessitates mutual funds to obtain senior management approval for establishing business relationship with PEPs and their close relatives / accounts of family members. Where a customer has been accepted and is subsequently found to be, or subsequently becomes a PEP, Mutual Funds must obtain senior management approval to continue the business relationship. The business relationships with PEPs who hold investments with the Fund must be closely reviewed by the AML Committee, along with their transactions / patterns of transactions.

iv. Clients of Special Category/ High Risk:

There are certain categories of investors, including high risk clients and PEPs, who are considered as Clients of Special Category (CSC) in terms of the SEBI Master Circular. These investors shall be subjected to enhanced due diligence as determined by the AMC, basis the risk profile of the investor. Irrespective of the investment amount, some investors should be further treated as CSCs and subjected to enhanced due diligence, if required. The list of investors who fall in this category are *inter-alia* as mentioned below:

a. Non-Resident clients.
b. High Net-worth clients.
c. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations.
d. Companies having close family shareholdings or beneficial ownership
e. Politically Exposed Persons (PEP).
f. Current / Former Heads of State, current or former senior high-profile politicians and connected persons.
g. Clients in high risk countries: FATF High-Risk Jurisdictions (Iran, North Korea & Myanmar).
h. Non face to face clients viz. clients who open accounts without visiting the branch/offices of the registered intermediaries or meeting the officials of the registered intermediaries. Video based customer identification process is treated as face-to-face onboarding of clients.

i. Clients with dubious reputation as per public information available etc.

The PMLA Rules states that the transactions of clients who are suspected to be engaged in "predicate offences" can be reported as suspicious irrespective of the value of transactions. The list of such predicate offences is available in the annual report of the FIU-IND and is available on their website (refer to references at end of this report). Reasonable efforts may be taken in-house at AMC's to ascertain names of persons / entities involved in predicate offences based on other sources like Google alerts, databases of banned / tainted individuals & entities, alerts from branches, newspaper reports / Internet and other publicly available information at a defined periodicity, inquiries from LEAs / other regulatory bodies, list of designated individuals/entities, leads from other group companies, adhoc reports etc. in addition to AMFI (Association of Mutual Funds in India) specified alerts.

List of designated individuals and entities which are subject to various sanction measures such as freezing of assets / accounts, denial of financial services etc., as approved by Security Council Committee is available on the United Nations website / Ministry of Home Affairs, Government of India (GoI). These names may be monitored closely. The transactions of these clients are scrutinized regularly for the purpose of STR reporting and they could also be subject to enhanced due diligence. AMC's must note that very stringent standards apply (especially time lines for reporting to authorities), where their clients, if any, are found on the designated list[3]. These are reporting standards prescribed by the regulator. AMC's have to ensure that accounts are not opened in the name of anyone whose name is part of designated list. AMC's shall also file a STR with FIU-IND covering all transactions carried or attempted in the accounts covered under the list of designated individuals/entities. Full details of accounts bearing resemblance with any of the designated individuals/entities in the list shall be intimated to the Central [designated] Nodal Officer for the UAPA at Fax No.011-23092551 and also conveyed over telephone No. 011-23092548. The particulars apart from being sent by post shall necessarily be conveyed on email id: jsctcr-mha@gov.in.

AMCs shall also send a copy of the communication mentioned above to the UAPA Nodal Officer of the State/UT where the account is held and to SEBI and FIU - IND, without delay. The communication shall be sent to SEBI through post and through email (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Deputy General Manager,

Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities

[3] *Designated list per SEBI Circular for guidelines on AML/CFT dated February 03,2023 and other circulars updates from time to time are:*

a. *List issued by United Security Council Resolutions 1267*
b. *List issued by United Security Council Resolutions 1988*
c. *List issued by United Security Council Resolutions 1718*
d. *List issued by United Security Council Resolutions 2231*
e. *All orders under section 35 (1) and 51A of UAPA 1967*

and Exchange Board of India, SEBI Bhavan II, Plot No. C7, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. The consolidated list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.

SEBI vide its circular no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/062 dated April 26, 2023 based on order dated January 30, 2023 by Ministry of Finance vide F.No.P-12011/14/2022-ES Cell-DOR (“the Order”) detailing the procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (“WMD Act”).

d. Identification of Beneficial Ownership

AMC’s must adhere to the SEBI Master Circular dated October 12, 2023 on beneficial ownership and subsequent circulars issued from time to time. The circular defines the various measures of establishing beneficial ownership, including thresholds of ownership, other means like voting rights, agreements and arrangements or in any other manner. These definitions apply to companies, partnerships, association / body of individuals and separately for trusts. Its applicability for listed companies and foreign investors are also stated. AMC’s must follow these prescribed norms for their EDD requirements.

e. Suspicious Transactions: Identification, Monitoring, Reviewing and Reporting of transactions:

1. Suspicious Transactions

The PML Rules define suspicious transactions as:

“Suspicious transaction means a transaction, including an attempted transaction, whether or not made in cash, which to a person acting in good faith -

a. gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
b. appears to be made in circumstances of unusual or unjustified complexity; or
c. appears to have no economic rationale or bonafide purpose; or
d. gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism”.

How to identify potentially suspicious transactions?

Unusually large and complex transactions / patterns or transactions that are abnormal within the known relationship with a client and which seemingly have no economic rationale must be monitored and appropriate CDD and / or enhanced KYC as may be required for such clients, maybe conducted. The AMC should categorize “potentially suspicious transactions” on the basis of any of the following:

a. **The Association of Mutual Funds in India (AMFI) criteria:**

AMFI, in consultation with FIU-IND, has laid down a set of criteria which are standard for the Indian Mutual Fund industry, based which transactions are monitored and analyzed for further reporting by the AMCs (Refer Annexure A).

FIU has vide letter dated May 19, 2023 provided guidelines for detecting suspicious transactions.

b. **Additional Criteria:**

It is recommended that AMCs may review the transactions based on additional criteria other than those prescribed by AMFI, such as transactions in cash, multiple transactions through various locations, investors of a specific location, predicate offences, multiple attempts at investments with KYC failures, possible abuse of the provisions of PAN exemption in order to avoid submitting PAN at the time of investment(s) etc.

c. **Other sources for identification of potential suspicious transactions:**

1. The regional newspapers / internet / other publicly available information are regularly scanned on a "best effort basis" to find names of persons / entities involved in predicate offences.
2. Google alerts can be created for predicate offences for a timely update of any such activity / crime. Such investors, if found in the database and their identity is well established, maybe evaluated by the Principal Officer (PO) / AML committee and reported.
3. Based on the risk categorization of an investor especially high-risk clients, transactions of such investors based in countries / territories notified by FATF as non-co-operative / following inadequate AML / CFT measures.
4. Transactions and patterns of transactions by PEPs
5. Names of unit holders are scanned against a list of banned entities issued by Security Council established pursuant to various United Nations' Security Council Resolutions (UNSCRs), list in the Schedule to the Order dated August 27, 2009 issued under Unlawful Activities (Prevention) Act, 1967 (UAPA) and Ministry of Home Affairs, GoI updated from time to time.
6. SEBI issues various orders from time to time against individuals and / or entities for reasons of misconduct / other charges, besides barring them from the securities markets. SEBI usually communicates these to fund houses. In addition, the SEBI website also has a list of debarred persons/entities under the tab Enforcement. These names may be treated like alerts and handled appropriately.
7. Law Enforcement Agency Query – Query or letter received from law enforcement

agency (LEA) or intelligence agency (e.g. blocking order received, transaction details sought etc.) and /or Customer has been the subject of inquiry from any law enforcement agency relating to criminal offences and /or Customer has been the subject of inquiry form any law enforcement agency relating to TF or terrorist activities.

8. FIU-IND on its portal i.e. FINGATE 2.0 issues alerts about individuals/entities. They may also request certain information about these individuals/entities. These alerts are then considered as cases and presented to the AML committee based on which STRs are filed.

9. Struck-off Companies and Disqualified Directors by Registrar of Companies (ROC): Customer's name appears in the list of Struck-off Companies and Disqualified Directors by Registrar of Companies. Such a list is available on the website of the Ministry of Corporate Affairs. (MCA).

AMC's must ensure that all measures taken to identify suspicious transactions, whether reported or not should be documented for any future reference / audit. AMCs may review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data.

d. Feedback from AMC branches:

Branch staff must be encouraged to notify reporting of any suspicious activity "directly" to the Principal Officer (to avoid tipping off). The definition of suspicious transactions as per the PMLA Amendment Rules, 2009 includes "attempted transactions" as well. To identify such transactions, AMC's must be particularly alert to the following:

- Prospective / existing non KYC compliant investors who do not invest after being informed of the KYC norms.
- Prospective / existing non KYC compliant investors, who do not co-operate, insist that the KYC norms be relaxed / circumvented for accommodating their transactions.
- Branches may be trained to report any incriminating material and relevant information found in their local newspapers about persons / entities, who could be their investors

AMC's may, if they find reasons for suspicion, use discretion in analyzing such clients before they choose to report.

2. Transaction Monitoring / Review

On an ongoing basis, the AMC's may carry out scrutiny of clients especially clients in special categories / high risk categories, throughout the course of its business relationship in terms of AMFI criteria to ensure that the transactions being conducted are consistent with the Fund's knowledge of the client, its business and risk profile and also the source of funds. Anything unusual about clients / transaction pattern based on a set of internal parameters and various combinations of information should be closely monitored. If required, additional information for enhanced KYC purposes should be sought within a reasonable timeframe. All investigations for ascertaining suspicious transactions are dependent on the reasons for the STR alert and other factors mentioned elsewhere in this document. Multiplicity and complexity along with the value of the transactions may generally form the basis of reporting, other than adverse publicly available information. Alerts should not be sent to FIU- IND without appropriate scrutiny and affirmation that the transaction is suspicious in nature, backed by reasons.

3. **Suspicious Transactions Reporting (STR)**

In the event of any suspicious transactions that have been identified and there is non-availability of enhanced KYC information (including on account of non-cooperation by the client) to establish the bonafide of these transactions, the Fund should file a suspicious transaction report (STR) with the Director – Financial Intelligence Unit (FIU-IND) within prescribed timelines and format. The AML committee/team may in its judgment decide on the merit of the reporting of such cases found to be suspicious. The investors whose transactions are reported as "suspicious" may also be monitored by maintaining a suitable 'watch-list'. If there is substantial increase in the amounts of the subsequent transactions of such investors, the case may be re-examined in detail and reported again as an STR providing the background of the pattern of transactions, along with reasons for suspicion. All discussions and decisions during the AML Committee/team meetings should be appropriately documented (manual or electronically) and marked to all committee members.

All potentially "suspicious" transactions must be reviewed. This must cover the STR alerts on a regular basis "suspicious" cases must be reported to FIU-IND promptly of establishing that the transactions were "suspicious". The AMC should thus demonstrate reasonable due diligence standards for its AML program and record all reported cases with reasons for suspicion / KYC status / action taken etc. Cases that are not reported should also have adequate narrations about reasons for non-reporting and whether they are under a watch-list. However, transactions of the unit holders, if any, whose names match those specified in the designated lists **must be** reported immediately (within 24 hours as prescribed). Refer SEBI circular SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 where the form and manner of complying with this requirement is expressly stated.

4. Key Element of Reporting- Grounds of Suspicion

It is extremely crucial to give detailed and relevant information in the Grounds of Suspicion (GoS) part of the STR filed. FIU-IND relies heavily on the GoS and has provided Guidelines and a Model Template for the GoS on the FINnet gateway portal. Ref: F.No.9-11/2018/AV.I/FIU-IND dated December 12, 2018. An appropriate narrative which forms a part of GoS helps authorities in performing a conclusive investigation. FIU has given feedback where a lot of times it finds that a single line GoS is given without any transaction history, suspicion, alert indicators etc. RE must check the status of all reports filed and where the report(s) has been rejected, a revised report must be filed within 5 working days from date of rejection of report along with communicating details of such refiling separately by email addressed to FIU Helpdesk. When filing STR on adverse media report or LEA enquiry, the RE should conduct proper due diligence to establish the match and get fuller details before STR is filed. Repeated STRs of incremental transactions of reported entities based on adverse media report should be avoided. It is recommended to report incremental transactions only if additional GoS is observed that warrants a new STR.

5. Transactions of Non-Profit Organizations

As per Clause 3(BA) of PMLA Rules 2005 - Every reporting entity shall maintain the record of all transactions including, the record of all transactions involving receipts by non-profit organizations of value more than rupees ten lakh, or its equivalent in foreign currency. The NTR has to be furnished to FIU Director by the 15th day of the succeeding month. As per 'The Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2023 Clause 2-(1)- (cf) ''non-profit organization'' means any entity or organization constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a company registered under section 8 of the Companies Act, 2013 (18 of 2013)].

6. Risk Management

Apart from the said AMFI criteria, internal adhoc checks should be conducted on a regular basis to proactively identify any probable suspicious transactions. Following are some of the additional checks that could be done on a regular basis:

a. FATF issues guidance on a periodic basis, on how to deal with high-risk and non-cooperative jurisdictions. This statement is forwarded to all AMC's by SEBI and AMFI. Members are required to exercise caution while dealing with jurisdictions with strategic AML/ CFT deficiencies and in certain cases apply counter-measures.
b. Transactions by PEPs or their close relatives/associates.
c. Multiple attempts at investments with KYC failures.
d. Online transactions based on multiple factors like frequency, redemptions to different

bank mandates, transactions having no economic rationale (short period non-liquid fund transactions) etc

e. Abuse of the provisions of PAN exemption in order to avoid submitting PAN at the time of investment(s) or is investing using multiple fronts.

f. Names of unit holders should be scanned against a list of banned entities issued by Security Council established pursuant to various United Nations' Security Council Resolutions (UNSCRs), list issued under section 35(1) and 51A of UAPA by Ministry of Home Affairs, GoI and any such list as the AMC may wish to.

f. Cash Transactions:

The following is recommended to monitor cash transactions:

a. Cash transactions should be monitored where investors are attempting to invest more than the prescribed amounts (i.e. ₹50,000 per annum, per fund per investor, per year)

b. Investors may try to deposit amounts more than what is prescribed feigning ignorance and later ask for a refund. Such refunds would typically be paid through normal banking channels / cheque, which could potentially legitimize the funds for the investor

c. Investors who use cash to invest and then carry out very short period redemptions, say within a month especially in equity / equity oriented schemes

d. Identify same investors with different PEKRNs i.e. PAN Exempt KYC Registration Number where:
   - Multiple investments are made in different name but with same address
   - Investor address and transaction location is different.

e. Additionally, the Principal Officer should be informed in case of any cash deposit where fake currency is used as reported by the collecting bank.

g. Record Keeping of Transactions:

Under the Act and Guidelines, all intermediaries have an obligation of maintaining and preserving client and transactions related records. All necessary records on transactions, client documentation and business correspondence etc, should be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed there under as well SEBI Act) and other applicable legislations, Regulations or exchange bye-laws or circulars. Records must be made available at all times for inspection by auditors and regulators.

All Intermediaries shall ensure that all client and transaction records are available on a timely basis to competent investigating authorities. To retain records on transactions, client documentation and business correspondence etc., for periods which may exceed those required under the PMLA and rules framed there under as well SEBI Act and other applicable legislations, Regulations or exchange bye-laws or circulars.

h. Staff Hiring Policies and Training Programs:

AMC's must ensure that staff hired for the purposes of dealing with clients should be well screened and are suitable and competent for the job. Appropriate due diligence in the form of reference checks and other character checks should be conducted before a person is confirmed for the job. These steps taken to ascertain the background of the employee(s) must be documented.

Training is a subject of intense importance in relation to PMLA and its various requirements. All employees should be covered for training, through the following:

1. At the time of induction of new employees
2. Via periodic newsletters, where possible to branches using bulletins,
3. Reference material/s, case studies, incidents available to all staff through their Intranet / internal mechanism for information dissemination / electronic library etc.
4. Conference calls with relevant staff to update on important developments.

The AML staff of AMC's must be well trained on a continuous basis and sensitized to identify suspicious transacting activities of unit holders. This is important as branch staff could potentially be a key source of alerts for the AMC at a local level.

5. Implementation of policy for the PMS / AIF etc, if any

AMC's that have a Portfolio Management Service (PMS) / Alternative Investment Fund (AIF) division etc., under its fold must ensure that appropriate AML measures as stated in this document are applied those divisions also. The Principal Officer may ensure the same.

6. Role of Internal Auditors

The Act and Guidelines prescribe that the internal auditors should periodically check the efficacy of the alerts management and STR reporting process. The auditors, *inter alia*, may check as part of their scope of audit, the following:

- Third party cheques / instruments are not accepted for subscriptions.
- Subscriptions are accepted only from KYC compliant investors
- Transactions of PAN exempt category of investors are within the prescribed rules/thresholds.
- Transactions in cash / its prescribed threshold limits.
- Adequacy of a reporting mechanism to FIU-IND

The internal auditor's scope must cover a review of implementation of the Act and various SEBI circulars on a periodic basis and may report their findings to the Audit Committee of the Board / Board of Directors.

7. Role of Trustee and the Board of Directors of Asset Management Company

The Trustee / Board of Directors should ensure that the AML / CFT policy adopted is practiced and that the AMC is compliant. The scope of any audit program at an AMC largely revolves around such policy / extant regulations. The Trustee / Board of Directors must review the audit reports and engage with management to ensure implementation of its AML program on an ongoing basis, besides addressing comments from audit reports, regulators and authorities, if any. If the AML policy warrants any change, keeping in mind operational / regulatory / legislative changes, the same must be incorporated.

8. References

1. Website of FIU-IND : http://www.fiuindia.gov.in/
2. FIU-IND Annual Report: https://fiuindia.gov.in/pdfs/downloads/AnnualReport2021_22.pdf
3. Predicate Offences as listed under the Prevention of Money Laundering Act - http://www.fiuindia.gov.in/pdfs/downloads/annualreport2013-14.pdf (Page 55)
4. SEBI Master Circular on AML – February 2023: https://www.sebi.gov.in/legal/master-circulars/feb-2023/guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-laundering-act-2002-a-_67833.html
5. SEBI circular No. CIR/IMD/FPIC/CIR/P/2018/64 dated April 10, 2018
6. Gazette Notification issued by Government of India through gazette notification S.O. 1074(E) dated March 07, 2023 (PML eGazette dated March 07,2023).
7. SEBI Master Circular on KYC norms for Securities Market dated October 12, 2023.

Risk Rating Matrix			
Whitelisted investors do not go through the risk rating process			
Risk assignment based on various parameters			
Risk Parameter	**Type**	**Associated Rating (0 being lowest and 10 being highest)**	**Weight age (%) [Total should be 100]**
Tax Status	Bank / Financial Institution	0	10
	Provident Fund / EPF	0	
	Superannuation Fund	0	
	Gratuity Fund	0	
	Pension Fund	0	
	NPS Trust	0	
	Foreign Inst. Invest	0	
	Individual	1	
	On Behalf Of Minor	1	
	HUF	1	
	Sole Proprietorship	1	
	Partnership Firm	3	
	Body Corporate	4	
	Society	4	
	AOP/BOI	5	
	Limited Liability Partnership	5	
	Trust	7	
	NRI Through NRO A/c	8	
	NRI	8	
	NRI - Others	8	
	Non-Resident Minor	8	
	Non-Resident HUF	8	
	Others	10	
Occupation	Service	1	5
	Retired	1	
	Agriculture	4	
	Professional	5	
	Housewife	7	
	Student	7	
	Business	7	
	Others	10	
	Not Specified	10	
	Unknown	10	
PEP Status	No	1	15
	Yes	10	
KYC Validated	No	8	10
	Yes	1	
Investment amount (single investment)	Upto 1 lac	1	10
	>= 1 lac < 1.5 lac	2	
	>= 1.5 lac < 2 lac	5	
	>= 2 lac < 5 lac	2	
	>= 5 lac < 10 lac	3	
	=>10 lac <1cr	4	
	=>1cr	7	
Country of residence	FATF Black list Countries	5	
	FATF Grey list Countries	3	
	Others	1	
Investments via Demand Draft	<= 3	0	5
	4 to 7	4	
	> 7	7	

Risk Rating Matrix			
Whitelisted investors do not go through the risk rating process			
Risk assignment based on various parameters			
Risk Parameter	**Type**	**Associated Rating (0 being lowest and 10 being highest)**	**Weight age (%) [Total should be 100]**
Bank accounts held [Inv. + Redemption]	Upto 3	0	5
	3 to 5	4	
	> 5	8	
World Check / UNSC / MHA listed	No	0	20
	Yes	10	
Folios held [as 1st holder]	<= 5	1	5
	5 to 20	4	
	> 20	7	
Folios held [as JHs]	<= 5	1	5
	5 to 20	5	
	> 20	10	

Note: This is only meant to be a framework and for illustration purposes. AMCs may adopt the same / adapt from this matrix as deemed fit, change parameters to suit their risk assessment norms

Computation of Risk rating (0 being lowest and 10 being highest):	
Step 1	Compute the rating in each risk parameter as the product of the associated rating and weight age
Step 2	Add the rating for each risk parameter to arrive at the total risk rating
Step 3	Classify risk rating of up to 1.5 as "Low", 1.5 to 2.5 as "Medium" and more than 2.5 as "High"

Examples:	
Example 1	An individual businesswoman with no political affiliations (as per KYC declarations), not featuring in any negative lists, residing in Kanpur who has made 4 investments each of Rs. 30 lac via demand draft and holding 4 bank accounts, 11 folios as 1st holder and 2 as 3rd holder
Rating : (1*0.10) + (7*0.10) + (1*0.15) + (1*0.10) + (4*0.10) + (1*0.10) + (4*0.05)+ (4*0.05) + (0*0.20) + (4*0.05) + (1*0.05) which results in a total rating of 2.20	
Example 2	An NRI into service with no political affiliations (as per KYC declarations), not featuring in any negative lists, residing in Iran and holding 1 folio and has made an investment of Rs. 2 cr via cheque payment. He holds 6 bank accounts, 1 folio as 1st holder and 12 as 2nd holder
Rating : (8*0.10) + (1*0.10) + (1*0.15) + (1*0.10) + (7*0.10) + (5*0.10) + (0*0.05) + (8*0.05) + (0*0.20) + (1*0.05) + (5*0.05) which results in a total rating of 3.05	

AMFI

Simulations for Computation of Risk Rating

Investor 1				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	Individual	1	0.10
2	Occupation	Housewife	7	0.05
3	PEP Status	Yes	10	0.15
4	KYC Validated	No	8	0.10
5	Investment Amount (single investment)	=>1cr	7	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	3 to 5	4	0.05
9	World Check / UNSC / MHA listed	Yes	10	0.20
10	Folios held [as 1st holder]	5 to 20	4	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	6.00
Risk Classification	High

Investor 2				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	Individual	1	0.10
2	Occupation	Business	7	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	Yes	1	0.10
5	Investment Amount (single investment)	=>1cr	7	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	> 5	8	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	> 20	7	0.05
11	Folios held [as JHs]	5 to 20	5	0.05

Risk Rating	2.50
Risk Classification	Medium

Investor 3				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	Trust	7	0.10
2	Occupation	Others	10	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	Yes	1	0.10
5	Investment Amount (single investment)	=>10 lac <1cr	4	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	4 to 7	4	0.05
8	Bank Accounts Held (Inv + Red)	3 to 5	4	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	5 to 20	4	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	2.60
Risk Classification	High

Investor 4				
Whitelist			Yes	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	Bank / Financial Institution	0	0.10
2	Occupation	Others	0	0.05
3	PEP Status	No	0	0.15
4	KYC Validated	Yes	0	0.10
5	Investment Amount (single investment)	>= 1.5 lac < 2 lac	0	0.10
6	Country of Residence	Others	0	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	Upto 3	0	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	<= 5	0	0.05
11	Folios held [as JHs]	<= 5	0	0.05

Risk Rating	**0.00**
Risk Classification	**Low**

Investor 5				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	Sole Proprietorship	1	0.10
2	Occupation	Business	7	0.05
3	PEP Status	Yes	10	0.15
4	KYC Validated	No	8	0.10
5	Investment Amount (single investment)	=>10 lac <1cr	4	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	> 7	7	0.05
8	Bank Accounts Held (Inv + Red)	3 to 5	4	0.05
9	World Check / UNSC / MHA listed	Yes	10	0.20
10	Folios held [as 1st holder]	5 to 20	4	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	**6.05**
Risk Classification	**High**

Investor 6				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	NRI	8	0.10
2	Occupation	Service	1	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	No	8	0.10
5	Investment Amount (single investment)	>= 5 lac < 10 lac	3	0.10
6	Country of Residence	Iran	5	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	Upto 3	0	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	<= 5	1	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	**2.70**
Risk Classification	**High**

Investor 7				
Whitelist			**No**	
S.No.	**Risk Parameters**	**Type**	**Rating**	**Weightage**
1	Tax Status	Partnership Firm	3	0.10
2	Occupation	Business	7	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	Yes	1	0.10
5	Investment Amount (single investment)	Upto 1 lac	1	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	4 to 7	4	0.05
8	Bank Accounts Held (Inv + Red)	> 5	8	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	5 to 20	4	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	**1.95**
Risk Classification	**Medium**

Investor 8				
Whitelist			**No**	
S.No.	**Risk Parameters**	**Type**	**Rating**	**Weightage**
1	Tax Status	On Behalf of Minor	1	0.10
2	Occupation	Retired	1	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	Yes	1	0.10
5	Investment Amount (single investment)	>= 1 lac < 1.5 lac	2	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	Upto 3	0	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	<= 5	1	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	**0.80**
Risk Classification	**Low**

Investor 9				
Whitelist			**Yes**	
S.No.	**Risk Parameters**	**Type**	**Rating**	**Weightage**
1	Tax Status	Foreign Inst. Invest	0	0.10
2	Occupation	Others	0	0.05
3	PEP Status	No	0	0.15
4	KYC Validated	Yes	0	0.10
5	Investment Amount (single investment)	>= 1 lac < 1.5 lac	0	0.10
6	Country of Residence	Others	0	0.10
7	Investments via Demand Drafts	<= 3	0	0.05
8	Bank Accounts Held (Inv + Red)	Upto 3	0	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	<= 5	0	0.05
11	Folios held [as JHs]	<= 5	0	0.05

Risk Rating	**0.00**
Risk Classification	**Low**

Investor 10				
Whitelist			No	
S.No.	Risk Parameters	Type	Rating	Weightage
1	Tax Status	AOP/BOI	5	0.10
2	Occupation	Others	10	0.05
3	PEP Status	No	1	0.15
4	KYC Validated	Yes	1	0.10
5	Investment Amount (single investment)	>= 2 lac < 5 lac	2	0.10
6	Country of Residence	Others	1	0.10
7	Investments via Demand Drafts	4 to 7	4	0.05
8	Bank Accounts Held (Inv + Red)	3 to 5	4	0.05
9	World Check / UNSC / MHA listed	No	0	0.20
10	Folios held [as 1st holder]	5 to 20	4	0.05
11	Folios held [as JHs]	<= 5	1	0.05

Risk Rating	**2.20**
Risk Classification	**Medium**

Note: You may also use the attached excel sheet for simulation purposes.

INTERNAL

Annexure A

Alert Code	Existing STR Criteria – effective 1st April 2018	Revised Criteria – effective 1st July 2023
309	**Use of Demand Drafts for investments:** Regardless of his/her status as a 1st/2nd/3rd unit holder, transaction across folios (at PAN level): **For Individual** a) Demand drafts have been used for investing 3 or more times in a rolling period of 1year and the cumulative amount of such non -SIP Investments being Rs. 10 lac or above **For Non-Individual** a) Demand drafts have been used for investing 5 or more times in a rolling period of 1year and the cumulative amount of such non -SIP Investments being Rs. 20lac or above	**Use of Demand Drafts for investments:** Regardless of his/her status as a 1st/2nd/3rd unit holder, transaction across folios (at PAN level): **For Individual and Non-Individual** Demand drafts of value below Rs. 50,000.00 have been used for investing in a rolling period of 1 year and the cumulative amount of such non -SIP Investments is Rs. 2 lac and above
413	**Activity in Accounts - Unusual activity compared to past transactions:** a. Where one single subscription transaction is **twenty or more** times greater than the average of all PRIOR subscription transactions by one investor during the last 3 years b. The threshold is an amount o**f Rs. 10 lac and above** for such a single transaction**.** c. Dividend Reinvestment, switches and systematic transaction values should be excluded.	**Activity in Accounts - Unusual activity compared to past transactions:** a. Where one single subscription transaction is **twenty or more** times greater than the average of all PRIOR subscription transactions by one investor during the last 3 years b. The threshold is an amount o**f Rs. 10 lac and above** for such a single transaction**.** c. Dividend Reinvestment, switches and systematic transaction values should be excluded.
414	**2.Use of different accounts by client alternatively.** ***Individuals:*** a. Individuals investing via more than five bank accounts within his / her life-time as investor or the last one year whichever is lesser or b. Registers more than 5 bank accounts within his / her life-time as an investor. c. The threshold of such investments is an amount of **Rs. 20 lac and above** ***Non-Individuals:***	**Use of different accounts by client alternatively.** ***Individuals:*** a. Individuals investing via more than **five** bank accounts during his / her tenure as an investor or the last one year whichever is lesser or b. Registers more than 5 bank accounts during his / her tenure as an investor. a. The threshold of such investments is an amount of **Rs. 20 lac and above** ***Non-Individuals:***

	a. Non-Individual investors investing in any scheme via more than **ten** bank accounts within its lifetime as investor or the last one year whichever is lesser b. Registers more than 10 bank accounts within his / her life-time as an investor. c. The threshold of such investments is an amount of **Rs. 40 lac and above**	a. Non-Individual investors investing in any scheme via more than **ten** bank accounts during its tenure as an investor or the last one year whichever is lesser b. Registers more than 10 bank accounts during its tenure as an investor. c. The threshold of such investments is an amount of **Rs. 40 lac and above**
415	**3. Short Period Redemptions:** Two opposite transactions in a folio within a scheme in a rolling period of 14 calendar days, except transactions in liquid/Ultra Short Term Debt funds Purchases, redemptions and switches are to be considered to consider the period of 14 days from initial purchase till date of redemption. For eg. Purchase on day T in scheme X for ₹ 1 crore, subsequently switched to scheme Y, which is then redeemed within T+14 should be treated as an alert. Only a Switch to another scheme which is **not** redeemed within T+14 will **not** be treated as an alert. **Individuals:** Threshold amount of at least one of the transaction will be ₹25 lac and above **For Non-individuals:** Threshold amount of at least one of the transaction will be ₹50 lac and above **(All Systematic Transactions are excluded)**	**Short Period Opposite Transactions:** Two opposite transactions in a folio within a scheme in a rolling period of 14 calendar days, except transactions in liquid/Overnight/Ultra Short-Term Debt funds. Purchases, redemptions and switches are to be considered, to consider the period of 14 days from initial purchase till date of redemption. For eg. Purchase on day T in scheme X for Rs 1 crore, subsequently switched to scheme Y, which is then redeemed within T+14 should be treated as an alert. Only a Switch to another scheme which is **not** redeemed within T+14 will **not** be treated as an alert. **Individuals:** Threshold amount of at least one of the transactions will be Rs. 25 lac and above **For Non-individuals:** Threshold amount of at least one of the transactions will be Rs. 50 lac and above **(All systematic transactions are excluded)**

416	**4. Non-Financial Activity in Accounts:** **1. Change of address or change in bank mandate during a rolling 12 month period, where:** a. Changes to bank mandate are executed by individual investors (including HUF) involving more than **three** different bank accounts (account numbers are different). These changes are over and above registered bank accounts **OR** b. Changes to bank mandate are executed by non-individual investors involving more than **five** different bank accounts (account numbers are different). These changes are over and above registered bank accounts **OR** c. Changes to address are executed by any investor (individual and non-individual) involving more than three different addresses. **2. KYC failure** Where KYC has failed and has not been regularized over a rolling period of 3 months and cumulative amount of investment of Rs 5 lac. **3. KYC under process for long period** KYC in process status for more than 3 months and cumulative investment more than Rs 10 lac for individuals and Rs 40 lac for non-individuals. For points 2 &3 above consider those cases where a purchase(s) has been submitted with KYC under progress status. ***Both the conditions provided above are mutually exclusive and any investor triggering any one of the conditions above***	**Non-Financial Activity in Accounts:** **1. Change of address or change in bank mandate during a rolling 12 month period, where:** a. Changes to bank mandate are executed by individual investors (including HUF) involving more than **three** different bank accounts (account numbers are different). These changes are over and above registered bank accounts **OR** b. Changes to bank mandate are executed by non-individual investors involving more than **five** different bank accounts (account numbers are different). These changes are over and above registered bank accounts **OR** c. Changes to address are executed by any investor (individual and non-individual) involving more than **three** different addresses. **2. KYC Failure & On hold** KYC has failed or is on hold and has not been regularized over a rolling period of 3 months & cumulative amount of investment of Rs. 5 lacs.

	should form part of the alerts.	
801	**Investment vis-à-vis the declared income as per last available / any revised KYC application form:** Single purchase transaction by an Investor: An amount of 10 or more times (of the upper band of the annual income) specified by the investor in the KYC form. *(Special emphasis must be laid by Fund Houses on investors who are students/housewives/retired persons/forex dealers / persons who have categorized themselves as "others")*	**Investment vis-à-vis declared income as per last available / any revised KYC application form:** a) Single purchase transaction of an Investor in a Financial year is 10 or more times of the upper band * of the annual income specified by that investor in the KYC form. b) Cumulative purchase transactions (cost *value) by an Investor in a Financial year is 20 or more times of the upper band* of the annual income specified by that investor in the KYC form.* **However, in case of highest income bracket where the upper income band is not mentioned then the lower band shall be considered. For example, if the highest income bracket is given as 'Rs 25 lac and above' then income shall be considered as Rs. 25 lac.* (Special emphasis must be laid by Fund Houses on investors who are students/ housewives/ retired persons/forex dealers / persons who have categorized themselves as "others")
805	**Change in bank mandate used for debits for Systematic Investment Plan investments (SIP)** Where an investor uses multiple bank accounts to debit for SIP investments i.e. more than 1 in one rolling year and the amount of investment exceeds Rs. 2,00,000 in such a period	**Change in bank mandate used for debit for Systematic Investment Plan investments (SIP)** Where an investor uses multiple bank accounts to debit for SIP investments i.e. more than 1 in one rolling year and the amount of investment exceeds Rs. 2,00,000 in such a period
804	**Multiple Joint holders:** Where one investor (identified by PAN) is investing as a joint holder (2nd or 3rd) with 5 or more different first unit holders (also identified by PAN) at any point in time	**Multiple Joint holders:** Where one investor (identified by PAN) is investing as a joint holder (2nd or 3rd) with 5 or more different first unit holders (also identified by PAN) at any point in time