



# SBI PENSION FUNDS PRIVATE LIMITED

## **Anti-Money Laundering Policy**

## 1. BACKGROUND:

The Prevention of Money Laundering Act, 2002 which was brought in force with effect from 1<sup>st</sup> July, 2005 vide Gazette notification/ Rules by Government of India, Department of Revenue, Ministry of Finance. The PMLA Act provides that every banking company (which includes a co-operative bank), financial institution (which includes Chit Fund Company, housing finance institution, Non-Banking Financial Company (NBFC) and Department of Posts and Intermediary (which includes a Stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, Portfolio Manager, Investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992), an association recognised or registered under the Forward Contracts (Regulation) Act, 1952 (74 of 1952) or any member of such association, **intermediary registered by the Pension Fund Regulatory and Development Authority (PFRDA)** and a recognised stock exchange referred to in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956); shall have to maintain a record of all the transactions, the nature and value of which has been prescribed in the Rules notified under the Act.

Such transactions include

All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within a calendar month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency. All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non-monetary account such as Demat account, security account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' will also be considered. In case there is a variance in CDD/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries will adopt the more stringent requirements of the two.

## 2. Important Definitions

To better understand their roles and responsibilities, the KYC/ AML / CFT functionaries at various levels must be familiar with certain terms commonly used with reference to AML/ CFT (Combating the Financing of Terrorism). Some of the key terminologies as defined in the PMLA, 2002 are given below:

## **Beneficial Owner:**

According to Chapter I, Section 2(fa) of PMLA, 2002, Beneficial Owner means an individual who ultimately owns or controls a client of a reporting entity or the person on whose behalf a transaction is being conducted and includes a person who exercises ultimate effective control over a juridical person.

The Bank shall, according to Rule 9(1) (a) (ii) of the PML (Maintenance of Records) Rules 2005, determine whether a client is acting on behalf of a beneficial owner, and identify the beneficial owner and take all reasonable steps to verify the identity of the beneficial owner. The procedure for determining beneficial owner, as per Rule 9 (3) of the PML (Maintenance of Records) Rules is as under:

(a) where the client is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.  
Explanation. - For the purpose of this sub- clause-

- i) "Controlling ownership interest" means ownership of or entitlement to more than twenty-five percent of shares or capital or profits of the company;
- ii) "Control" shall include the 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;

(b) where the client is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of/entitlement to more than fifteen percent of capital or profits of the partnership;

(c) where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen percent of the property or capital or profits of such association or body of individuals;

(d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;

(e) where the client is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with fifteen percent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and

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

**Client:** Chapter I Section 2 (ha) of PMLA, 2002 states that “Client” means a person who is engaged in a financial transaction or activity with the Bank and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.

**Person:** Chapter I Section 2 (s) of PMLA, 2002 states that a ‘person’ includes:  
an individual,

- i) a Hindu undivided family,
- ii) a company,
- iii) a firm,
- iv) an association of persons or a body of individuals, whether incorporated or not,
- v) every artificial juridical person, not falling within any one of the above persons (i to iv), and
- vi) any agency, office or branch owned or controlled by any of the above persons (i to v).

**Money Laundering Offence:** Whosoever directly or indirectly attempts to indulge or knowingly is party or is involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering. or involved in money-laundering and for matters connected therewith or incidental thereto.

**Non-Profit Organization:** NPO means any entity or organisation that is registered as a trust or a society under the Societies Registration Act, 1860 or any similar State legislation or a company registered (erstwhile Section 25 of Companies Act, 1956) under Section 8 of the Companies Act, 2013

**PEPs:** Politically exposed persons are individuals who are or have been entrusted with prominent public function in a foreign country, e.g. Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The close relatives of PEPs are also considered as PEPs for the purpose of risk categorization.

**PMLA, 2002:** The Prevention of Money Laundering Act, 2002 is an Act of Parliament to prevent money-laundering and to provide for confiscation of property derived from.

**Predicate Offence:** A “predicate offence” is an offence whose proceeds may become the subject of any of the money-laundering offences. With reference to the PMLA 2002, every Scheduled Offence is a Predicate Offence. The Scheduled Offence is called Predicate Offence and the occurrence of the same is a pre-requisite for initiating investigation into the offence of money laundering.

**Principal Officer:** is an officer designated by a Reporting Entity for the purpose of Section 12 of PMLA, 2002. Rule 7 of the PML (Maintenance of Records) Rules 2005 requires every reporting entity to communicate the name, designation and address of the Principal Officer to the Director.

**Proceeds of Crime:** Proceeds of crime means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property.

**Reporting Entity (RE):** Reporting Entity means a banking company, financial institution, intermediary or a person carrying on, a designated business or profession.

**Scheduled Offence:** it means an offence specified under Part A or Part C of the Schedule of the PMLA, 2002

**Suspicious Transactions:** it is defined under Rule 2(g) of the PML Rules and means a 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 the proceeds of crime: as per schedule A to PMLA; 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 activities relating to terrorism.

**Shell Companies:** A shell company is an entity that has no active business and usually exists only in name as vehicle for another company's business operations. In essence, shells are corporations that exist mainly on paper, have no physical presence, employ no one and produce nothing.

**Transaction:** A transaction is defined under rule 2(h) of the PML Rules and means a purchase, sale, loan, pledge, gift, transfer, deliver or the arrangement thereof and includes-

- a) Opening of an account
- b) Deposits, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instrument or by electronic or other non-physical means.
- c) The use of a safety deposit box or any other form of safe
- d) Entering into any fiduciary relationship
- e) Any payment made or received in whole or in part of any contractual or other legal obligation
- f) Any payment made in respect of playing games of chance for cash or kind including such activities associated with casino and Establishing or creating a legal persons or legal arrangement.

### **3. SCOPE AND APPLICABILITY:**

SBI Pension Funds Private Limited (SBIPFPL) is registered with Pension Fund Regulatory and Development Authority as a Pension Fund and has entered into an Investment Management agreement with NPS Trust. In terms of Investment Management Agreement (IMA), SBIPFPL has assumed the day to day investment management activities of the fund under various NPS schemes in accordance with the scheme objectives, Trust Deed, provisions of IMA and PFRDA Regulations & Guidelines.

SBIPFPL is also registered with PFRDA as Point of Presence (PoP) under sub-section (3) of Section 27 and shall perform the functions relating to registration of subscribers, undertaking Know Your Customer (KYC) verification, receiving contributions and instructions from subscribers and transmission of the same in the NPS architecture. Therefore, SBIPFPL is required to comply in terms of Regulation 15 of the PFRDA (PoP) Regulations 2018 and also with the provisions of the Prevention of Money Laundering Act (PMLA), 2002 & the rules framed thereunder as may be applicable from time to time and reporting & compliance of various activities under PMLA & PFRDA guidelines issued for AML/CFT.

This AML Policy is applicable to all individuals working at all levels and grades, including directors, Senior Executives, Senior Managers, Officers, other employees (whether permanent, fixed-term or temporary including those on deputation), consultants, contractors, trainees, interns and agency staff, agents or any other person associated with our Company and such other persons, all such intermediaries/ agents involved in on-boarding NPS Subscribers and including those designated by the Principal Officer in consultation with Compliance Officer from time to time. (all of the aforesaid being collectively referred to as "Designated Persons").

### **4. Purpose and Policy on Anti-Money Laundering Measures :**

In terms of Regulations issued by PFRDA on AML/CFT, the registered intermediary is required to comply with the provisions of PMLA, 2002 and the rules framed thereunder. Accordingly, SBIPFPL has framed this policy to take adequate measures to prevent money laundering and as well as put in place a frame-work to report any suspicious transactions to FIU as per the guidelines of PMLA, 2002. The relevance and usefulness of these Guidelines will be kept in perspective and SBIPFPL, being a registered intermediary will ensure that the Policy will be based on the guidelines and recommendations issued by PFRDA/ SEBI/ RBI from time to time. All amendments as are issued by PFRDA/RBI/ SEBI or FIU/ or Government of India will form an integral part of this policy.

The purpose of the Anti-Money Laundering Policy ("**AML Policy**") is to prevent any involvement by our Company in money laundering activity even where the involvement may be unintentional. It requires our directors, senior managements and other employees and those who work with us to recognize questionable financial transactions and to take steps to conduct appropriate additional due diligence. In case of any ambiguity under this policy, SBIPFPL shall follow the PMLA, PFRDA or other applicable laws in this regard.

## **5. OBJECTIVES:**

The objective of guidelines is to:

- a) Create awareness and provide clarity on Know Your Customer (KYC) standards and AML measures.
- b) Frame work for obligations of SBIPFPL under PMLA.
- c) To facilitate employees at all levels including persons associated with SBIPFPL to align their operations with best practices followed by other Point of Presence Intermediaries/ Pension Fund Industry.
- d) To assist law enforcement agencies in their effort to investigate and track money launderers.

## **6. GUIDANCE ON MONEY LAUNDERING:**

- a) The phrase "money laundering" is generally understood to mean any act or attempted act to conceal or disguise the true origin and ownership of illegally obtained proceeds so that they appear to have originated from legitimate sources thereby avoiding prosecution, conviction and confiscation of the illegal proceeds. Money laundering can be used by terrorist organizations, tax evaders, smugglers, by those engaged in bribery, or anyone who receives money for illegal activities or through illegal means. Countering money laundering is of critical importance as it ensures that illegal funds do not remain hidden and do not get integrated into legal business and consequently into the legal economy.
- b) The Government of India has enacted the PMLA, 2002 and issued rules and regulations thereunder ("PMLA") for preventing money laundering and countering the financing of terrorism in India, with effect from July 1, 2005. The PMLA defines the 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 and projecting it as untainted property shall be guilty of offence of money laundering."

The term 'proceeds of crime' has been defined under Section 2(u) of the PMLA as *“any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property.”* The definition of 'proceeds of crime' also implies that assets can be tainted by conversion. Therefore, if the 'proceeds of crime' are utilized to purchase another asset, by conversion, that asset could also be considered to be a 'proceed of crime' replacing the tainted money. Under the provisions of the PMLA, proceeds of crime can be attached in the possession of any person, whether or not such person was involved in the offence of money laundering.

c) Money laundering usually consists of 3 (three) steps:

- i) **Placement:** This is the initial stage and during this stage, the money generated from illegal /criminal activity such as sale of drugs, illegal firearms, etc. is disposed of. Funds are deposited into financial institutions or converted into negotiable instruments such as money orders or traveller's cheques. For example, cash received by a drug smuggler can be taken to a bank and changed into a money order or traveller's cheque.
- ii) **Layering:** In this stage, funds are moved into other accounts in an effort to hide their origin and separate illegally obtained assets or funds from their original source. This is achieved by creating layers of transactions, by moving the illicit funds between accounts, between businesses, and by buying and selling assets on a local and international basis until the original source of the money is virtually untraceable. Thus, a trail of unusually complex transactions is created to disguise the original source of funds and thereby make it appear legitimate. For example, money can be moved into and out of various offshore bank accounts through electronic funds transfers.
- iii) **Integration:** Once the illegitimate money is successfully integrated into the financial system, these illicit funds are reintroduced into the economy and financial system and often used to purchase legitimate assets, fund legitimate businesses, or conduct other criminal activity. The transactions are made in such a manner so as to appear as being made out of legitimate funds.

Having identified these stages of the money laundering process, financial institutions need to adopt procedures to guard against and report suspicious transactions that occur at any stage.



The ability to launder the proceeds of criminal activity through the financial systems of the world is vital to the success of criminal operations, and therefore India, as one of the world's emerging financial markets, has a vital role to play in combating money laundering. In case Banks, Financial Institutions, Mutual Funds, Pension Funds and Intermediaries becoming involved in money laundering offences, they can face prosecution under PMLA leading to reputation and other risks.

Customers would feel better protected if Pension Funds are able to protect themselves against criminal activity. Failure to prevent the laundering of the proceeds of crime permits criminals to benefit from their actions, thus making crime an attractive proposition. Adherence to AML policies and procedures should also enhance the fraud prevention measures that pension funds take to protect themselves and their genuine customers from losses.

## **7. SBIPFPL Obligations under PMLA, 2002 :**

Section 12 under Chapter IV places certain obligations on the REs which are as follows:

- a) Maintain a record of all transactions, including information relating to transactions covered under clause (b), in such manner as to enable it to reconstruct individual transactions;
- b) Furnish to Director within such time as may be prescribed, information relating to such transactions, whether attempted or executed, the nature and value as may be prescribed.
- c) Verify the identity of its clients in such manner and subject to such conditions as may be prescribed.
- d) Identify the beneficial owner, in any, of such of its clients, as may be prescribed;
- e) Maintain record of documents evidencing identity of its clients and beneficial owners as well as account files and business correspondence relating to its clients.

Similarly, the PML (Maintenance of Records) Rules 2005 delineate the rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries. For instance,

**Rule 3** of the PML Rules specifies the transactions, the records of which are to be maintained.

**Rule 7** of the PML Rules prescribes the procedure and manner of furnishing information, including an obligation to evolve an internal mechanism for detecting the prescribed transactions.

**Rule 8** of the PML Rules prescribes the time of furnishing such information and

**Rule 9** of the said Rules prescribes the procedure and manner of verification of records of identity of client.

## **8. Designated Director of the Company:**

According to Rule 2 of the PML (Maintenance of Records) Rules 2005, the Managing Director or the whole time Director duly authorized by the Board of Directors shall be Designated Director to ensure overall compliance with the obligation imposed under Chapter IV of the act and the Rules. It is important to note as under:

- (a) A "Designated Director" shall be nominated by the Board.
- (b) The name, designation and address of the Designated Director shall be communicated to FIU-IND.
- (c) In no case, the Principal Officer shall be nominated as the 'Designated Director'.

Accordingly, Managing Director & CEO of SBIPFPL shall be the designated director under PMLA.

## **9. Principal Officer of the Company:**

All intermediaries are required to designate a person as "Principal Officer" 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. Accordingly, Chief Risk Officer (CRO) has been designated as Principal Officer for SBIPFPL for AML/CFT matters for the purpose of Section 12 of PMLA, 2002. The Role of the Principal Officer is to furnish all information to Director FIU-IND under Rules 7 and 8 of the PML Rules. The Principal Officer:

- Shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law.
- maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism.
- Oversee and ensure overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended from time to time.

The company should ensure that the Principal Officer is able to act independently and report directly to the senior management or to the Board of Directors. With a view to enabling the Principal Officer to discharge his responsibilities effectively, the Principal Officer and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information.

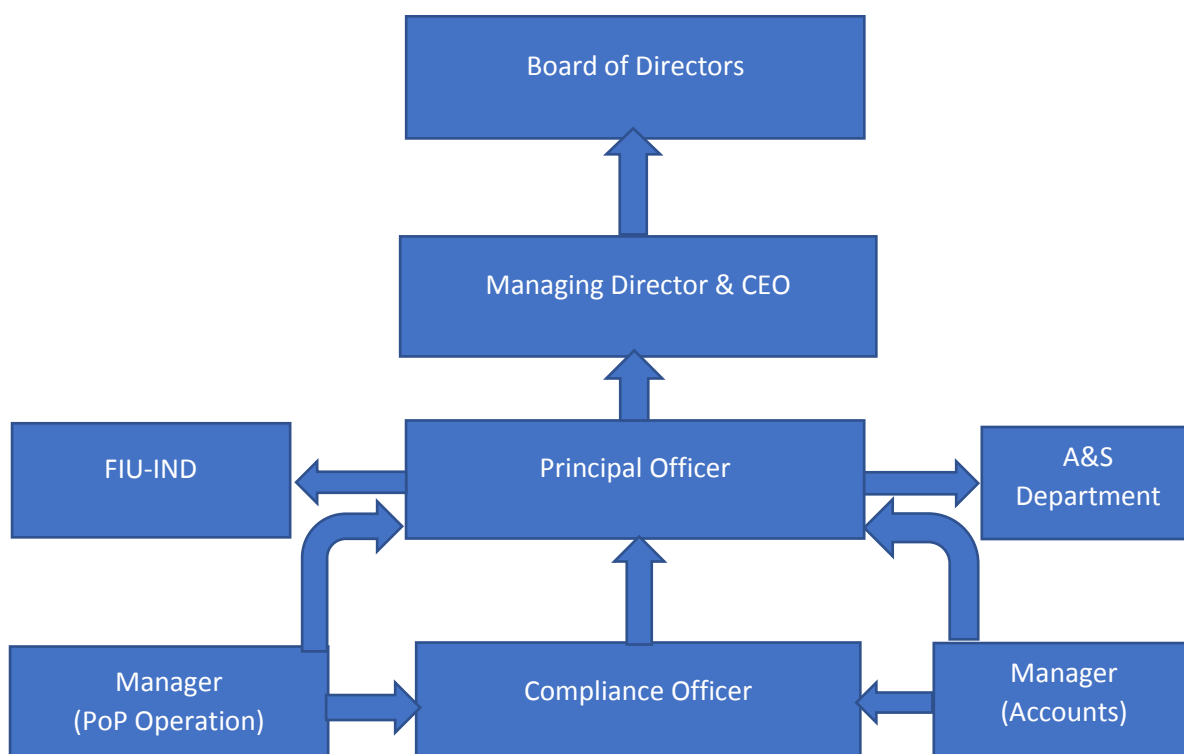
## 10. Compliance Officer:

The designated persons should raise all queries, concerns or complaints to the Compliance Officer of the company on a money laundering issue and any matters related to a money laundering issues should be reported to the Compliance Officer along with the Principal Officer. Any action required to be undertaken under this AML Policy shall be taken by the Principal Officer in consultation with Compliance Officer and Managing Director & CEO in accordance with this AML Policy.

## 11. Internal Audit :

Role of Internal Audit to provide an independent evaluation of the AML/CFT measures adopted by the Company and specifically point out the shortcomings that are likely to expose the Company to ML/ FT risks. They specifically check and verify the application of KYC/AML procedures & controls relating to the prevention of ML & TF and comment on the lapses observed in this regard including the level of awareness of front line staffs & other employees of their responsibilities in this regard.

The organisational structure of the AML/CFT are given as under:



## **12. The AML/CFT Architecture: Three Lines of Defence**

To create a robust AML/CFT architecture and manage the wide range of risks that it faces from Money Launderers and Terrorist Financing. The “Three Lines of Defence” is a widely used approach for the creation of a strong and efficient AML/CFT infrastructure and works as under:

### **a) The First Line of Defence:**

As the first line of defence, operational managers own and manage risks. They are also responsible for implementing corrective actions to address process and control deficiencies.

The Operational Management through managerial and supervisory controls, ensures the implementation of internal policies and conduct of business activities in accordance with the approved systems & procedures. The control breakdowns whenever they occur, are managed through laid down procedures and reported to the management.

Some of the principal functions of the operational units which make it a first line of defence from the AML/CFT perspective are as under:

- To conduct due diligence at the time of Customer on-boarding as prescribed in the operational manual and by the regulator.
- Following the Customer Due Diligence procedure impeccably.
- Ensuring that the identity of the customer does not match with any person or entity, whose name appears in the sanction’s lists circulated by the regulators.
- Understanding the customer’s source of funds, the line of activity and customer profile.
- Identifying beneficial ownership in the applicable cases and conducting due diligence on the beneficial owners as required.

### **b) The Second Line of Defence:**

Compliance Officer and Principal Officer is the second line of defence in the AML/CFT architecture of the Company. It establishes various AML/ CFT risk management and compliance functions to help build and monitor the first line-of-defence controls.

Typically, while performing its assigned duties towards fulfilment of the Company obligations under PMLA, 2002, the AML/CFT acts as the second line of defence by way of:

- Identification of all the relevant AML/CFT risk factors, assessment of the overall risk faced by the Company and determining the type of mitigation to be applied.

- Establishing a system of name screening to ensure that the Company does not on-board any person or entity whose identity matches with any person or entity in the Negative Lists. Also, conducting periodic exercises to purge out any customer whose name figures in the negative lists subsequent to the on-boarding process.
- Filing the Suspicious Transactions Reports (STRs) and other mandatory reports with FIU-IND.
- Identifying the gaps in controls if any, and taking appropriate action for plugging the same. Coordinating with the concerned departments/stakeholders for prompt implementation of the systems and procedures.
- Reporting major AML/CFT failures/exceptions to the Designated Director for appropriate action.

### **c) The Third Line of Defence:**

Internal Auditors to provide the Board and Senior Management with comprehensive assurance based on the highest level of independence and objectivity within the Company.

This is achieved through an assessment of effectiveness of governance, risk management, and internal controls, including the way the first and second lines of defence achieve risk management and control objectives.

Some of the features of the AML/CFT architecture and the quality of controls in place, on which the effectiveness of the Company AML/CFT systems and procedures are evaluated by the Internal Auditors, may be as under:

- Robustness of the account opening procedure for NPS schemes.
- Adherence to Customer Acceptance and Customer Identification Procedures.
- Existence of SOPs and guidelines for the operating units at various levels.
- Quality of transaction monitoring, STR escalation process and filing of STRs
- System of escalating AML/CFT concerns by Principal Officer to the Top Management.
- Staff Training & Awareness and understanding of roles and responsibilities.

## **12. Measures on Anti Money Laundering**

### **A) Customer Due Diligence (CDD)**

- i) The customer due diligence measures comprises of the following:
  - a) Verification of the client's identity using reliable, independent source documents, data or information
  - b) Understand the ownership and control structure of the subscriber.
  - c) Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the knowledge about the subscriber, its business and risk profile, taking into account, where necessary, the client's source of funds; and

## ii) Process for Client Identification Procedure

- a) Consequent to Prevention of Money Laundering Act, 2002 (PMLA) which came into effect from July 1, 2005, PFRDA mandated that all intermediaries (which includes Pension Funds) should undertake enhanced due diligence measures, as applicable under PML Rules and the PFRDA (PoP) regulations, 2018.
- b) PFRDA vide Circular No. PFRDA//2013/1/PDEX/25 dated 11/01/2013 has revised guidelines on obligations under PMLA, 2002 as amended by Prevention of Money Laundering (Amendment) Act, 2009 in order to bring uniformity and align the KYC documents required for opening of accounts under NPS with those required by other financial institutions. List of documents required for KYC is mentioned in **Annexure I**.
- c) PFRDA vide circular no. PFRDA/2019/14/PDES/1 dated 24/07/2019 has permitted PoP to rely on a third party for “client due diligence” at the time of commencement of an account based relationship, subject to the condition prescribed thereunder in The PML (Maintenance of Records) Rules, 2005 (sub rule 2 of Rule 9). However, PoP will be ultimately responsible for KYC/‘client due diligence’ and undertaking enhanced due diligence, as applicable under the PML rules and PFRDA (PoP) Regulations, 2018.
- d) The POP’s having access to SEBI KYC Registration Agencies may utilize the same as an additional method of KYC authentication while on boarding subscribers in NPS. vide circular no. PFRDA/2019/16/PDES/2 dated 23/09/2019 subject to condition mentioned in point no. (c).
- e) Government of India has authorized the Central Registry of Securitization and Asset Reconstruction and Security interest of India (CERSAI), set up under sub-section (1) of Section 20 of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, to act as, and to perform the functions of, the Central KYC Records Registry under the PML Rules 2005, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a “client”, as defined in clause (ha) sub-section (1) of Section 2 of the Prevention of Money Laundering Act, 2002. As per the 2015 amendment to PML (Maintenance of Records) Rules, 2005, every reporting entity shall capture the KYC information for sharing with the Central KYC Records Registry in the manner mentioned in the Rules, as per the KYC template for „individuals“ finalised by CERSAI.
- f) The SBIPFPL shall perform the digital KYC / E- KYC through KRA & CKYC for performing KYC of investors in accordance with the Prevention of Money Laundering Act (PMLA) notification dated August 19, 2019 and PFRDA circulars issued in this regard.
- g) Pursuant to PFRDA’s earlier circular no PFRDA/2013/1/PDEX/25 dated 11.01.2013 with respect to revised list of Know Your Customer (KYC) documents required for both entry and exit under National Pension System, it has been decided to include below mentioned documents in addition to the acceptable KYC documentation on the basis of feedback received from various entities registered under NPS:

## **B) POLICY FOR ACCEPTANCE OF CLIENTS**

### **a) Know Your Customer (KYC)**

**i). Customer Acceptance Policy :** SBIPFPL shall not accept any application for subscription unless it is accompanied with valid KYC acknowledgement from KRA ,C-KYC & Physical KYC. Know Your Customer (KYC) refers to, the activities of customer due diligence to identify subscribers and ascertain relevant information pertinent to doing financial business of SBIPFPL. KYC compliance and submission of Permanent Account Number (PAN) is mandatory for every client who invests in NPS schemes. Every individual will have to fill up a prescribed uniform KYC application in registration journey and support it with documents regarding identity i.e. PAN, proof of address, e.g. Passport fetched from CVL KRA/ C-KYC and a latest photograph.

### **(ii) Central KYC Records Registry (CKYCR)**

The Government of India vide their Notification dated November 26, 2015 authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) 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 under the Prevention of Money-Laundering Act, 2002. SEBI required all the market intermediaries to update/upload KYC details of the new customer/investors (not KYC-KRA compliant) on CERSAI's online platform. CERSAI is a centralized repository of KYC records of customers/investors in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector with an objective to reduce the burden of producing KYC documents and getting those verified every time when the customer/investors creates a new relationship with a financial entity. Central KYC (CKYC) will store all the customer/investor information at one central server that is accessible to all the financial institutions. After opening a KYC account under the CKYC, customer/investor will get a 14-digit identification number ("KYC Number") and that the same may be quoted by the investor wanting to invest in NPS Schemes

### **(iii) Offline Aadhar Based KYC:**

***PFRDA issued a circular dated 20<sup>th</sup> June, 2020 PFRDA/2020/20/SUP-CRA/9 regarding Aadhaar based offline paperless KYC verification process for NPS On-boarding. SBIPFPL has developed additional KYC method for Customer onboarding as per guidelines of PFRDA.***

## **b) Risk Based Approach**

It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the subscriber's background, type of business relationship or transaction etc. As such, each of the subscriber's due diligence measures shall be applied on a risk sensitive basis. The basic principle enshrined in this approach is that an enhanced client due diligence process for higher risk categories of subscriber's shall be adopted. Conversely, a simplified subscriber's due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries shall obtain necessarily depend on the risk category of a particular subscriber's.

Further, low risk provisions shall not apply when there are suspicion of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk. 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 subscriber's (complexity of transactions if any)
- Status of subscriber's (resident individual )
- Value of investment with the Fund
- Location of the subscriber's domicile
- Subscriber's business or profession
- Manner of remittance of funds
- Dubious background of subscriber's (based on publicly available information)

## **c) Risk Assessment**

SBIPFPL shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its subscriber's, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information pertaining to India that is circulated by the Government of India and PFRDA from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml) and <http://www.un.org/sc/committees/1988/list.shtml>).

The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk (viz, high, medium or low) and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.



#### **d) Subscriber's of Special Category:**

There are certain categories of investors, including high risk clients and PEPs, who are considered as Clients of Special Category (CSC) as per PMLA, 2002. These investors may be subjected to enhanced due diligence as determined by the SBIPFPL, based on the risk profile of the investor. Irrespective of the investment amount, some investors may be further treated as CSCs and subjected to enhanced due diligence, if required. The list of investors who fall in this category are as mentioned below:

- a. High Net-worth clients.
- b. Politically Exposed Persons (PEP) and their close relatives.
- c. Current / Former Heads of State, current or former senior high profile politicians and connected persons.
- d. Clients in high risk states.
- e. Subscriber's with dubious reputation as per public information available

The above mentioned list is only illustrative and SBIPFPL may exercise independent judgement to ascertain whether any other set of clients shall be classified as CSC or not.

The PMLA Amendment Rules, 2009 states that the transactions of clients who are suspected to be engaged in "predicate offences" have to be reported as suspicious irrespective of the value of transactions. The list of such predicate offences are available in the annual report of the FIU-IND. Reasonable efforts must be taken in-house to ascertain names of persons / entities involved in predicate offences based on other sources like Google alerts, databases of banned / tainted individuals & entities, news paper reports / Internet and other publicly available information at a defined periodicity, inquiries from LEAs / other regulatory bodies, UNSCR / MHA lists, leads from other group companies, adhoc reports etc.

List of 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 are 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. These are reporting standards prescribed by the regulator.

#### **e) Reliance on third party for carrying out Client Due Diligence (CDD)**

SBIPFPL may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act and PFRDA circulars issued in this regard.

## **C) CLIENT IDENTIFICATION PROCEDURE**

As mentioned above, SBIPFPL shall not accept any application for subscription unless it is accompanied with valid KYC acknowledgement from KRA/C-KYC and Physical KYC. SBIPFPL shall follow the KYC procedure established by PFRDA for the purpose of client identification procedure.

### **13. SUSPICIOUS TRANSACTIONS: IDENTIFICATION, MONITORING / REVIEWING OF TRANSACTIONS AND REPORTING:**

#### **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”.

#### **2. How to identify 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 enhanced KYC as may be required for such clients must be conducted. “Potentially suspicious transactions” may be categorized on the basis of any of the following:

##### **a. Criteria by PFRDA:**

Pension Funds has to undertake enhanced due diligence measures for KYC procedures, monitoring & analysing of transactions for further reporting as mentioned in the PFRDA (PoP) Regulations, 2018 and the Guidelines for Operational Activities to be followed by Point of Presence (POPs), POP-SP, POP-SE & POP -Corporate.

##### **b. 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 including Google search.

2. 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. Any such transactions shall be strictly in compliance with PFRDA (PoP) Regulations, 2018 & and the Guidelines for Operational Activities to be followed by Point of Presence (POPs), POP-SP, POP-SE & POP -Corporate and any other applicable guidelines / amendments from time to time.
3. Transactions and patterns of transactions by PEPs.
4. Names of subscribers 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, Gol.
5. Check for names of subscribers against commercially available databases, where subscribed for, if any.

All steps taken to identify suspicious transactions may be documented for future reference.

### **3. Transaction Monitoring / Review:**

SBIPFPL shall carry out scrutiny of clients especially clients in special categories / high risk categories, throughout the course of its business relationship in terms of PMLA and PFRDA guidelines to ensure that the transactions being conducted are consistent with the Fund's knowledge of the subscriber's, its business and risk profile and also the source of funds.

### **4. Suspicious Transactions Reporting (STR):**

In the event of any suspicious transactions that have been identified on the basis of above, SBIFMPL shall file a suspicious transactions report (STR) with the Director – Financial Intelligence Unit (FIU-IND) within prescribed timelines and format. The reporting of “suspicious” cases to FIU shall be within 7 days of establishing that the transactions was “suspicious” However, transactions, whose names match those specified in the United Nations' Security Council 1267 list and the list provided by the Ministry of Home Affairs, Gol must be reported immediately (within 24 hours as prescribed). Utmost confidentiality should be maintained in filing of STR to FIU-IND as well as it should be ensured there is no tipping off to the client at any level the fact that a STR or related information is being reported or provided to the FIU-IND.

***SBIPF will follow Screening of Suspicious Transactions as per Guidelines on detecting suspicious transactions under Rule 7(3) of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 for Intermediaries registered under the PFRDA Act. Vide F.No.9-21/2013/FIU-IND Government of India, Ministry of finance, Department of Revenue, Financial Intelligent Unit of India.***

#### **14. RECORD KEEPING OF TRANSACTIONS:**

SBIPFPL shall maintain and preserve necessary client and transactions related records for the compliance of the AML guidelines for a period of 5 years. The records pertaining to client transactions will be maintained for a period of 5 years from the date of the transaction. The records pertaining to identity of the clients and beneficial owners as well as account files and business correspondence shall be maintained for a period of 5 years after the business relationship between a client and the reporting entity has ended or the account has been closed, whichever is later. Records must be made available at all times for inspection by regulators. In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, shall be retained until it is confirmed that the case has been closed.

**Records of information reported to the Director, Financial Intelligence Unit – India (FIU – IND):** SBIPFPL shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

#### **15. FREEZING OF FUNDS, FINANCIAL ASSETS OR ECONOMIC RESOURCES OR RELATED SERVICES**

Pursuant to Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) read with Central Government order dated March 14, 2019, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. In such cases SBIPFPL will follow the direction of the Central Government and as procedure as prescribed by PFRDA and under PMLA.

#### **16. PROCEDURE FOR UNFREEZING OF FUNDS, FINANCIAL ASSETS OR ECONOMIC RESOURCES OR RELATED SERVICES OF INDIVIDUALS/ENTITIES INADVERTENTLY AFFECTED BY THE FREEZING MECHANISM UPON VERIFICATION THAT THE PERSON OR ENTITY IS NOT A DESIGNATED PERSON**

Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the SBIPFPL and SBIPFPL on receipt of such application will follow the procedure as per order dated March 14, 2019 under Section 51A of the Unlawful Activities (Prevention) Act, 1987.

## **17. TRAINING**

SBIPFPL shall also conduct a training programme so that the members of the staff are adequately trained in AML and CFT procedures for effective implementation of measures.

## **18. AML COMMITTEE**

It is also recommended that an AML Committee be set up comprising of the Principal Officer and atleast two members of sufficient seniority / experience to ensure unbiased judgment, independency and no internal conflict of interest. The Managing Director & CEO may constitute an AML Committee, for a primary review of the alerts shortlisted by the PO / AML team and approve the suspicious to be reported to FIU-IND. AML Committee may also discuss general compliance, new regulations / legislations, give guidance and review the PEP transactions, if any, along with ensuring that the general provisions of PML Act and PFRDA guidelines are adhered to.

## **19. Role of Board of Directors of SBIPFPL**

The Board of SBIFMPL shall review the compliance of the PMLA / PFRDA Circular on ongoing basis.

**List of documents acceptable as Proof Identity and address for both entry and exit under NPS (all variants)**

<b>Sl. no</b>	<b>Proof of Identity (copy of any one of the documents given below)</b>	<b>Proof of address (copy of any one of the documents given below)</b>
a.	Passport Issued by Government of India	Passport Issued by Government of India
b.	Ratio card with Photograph	Ration Card with Photograph and residential address
c.	Bank Pass Book or certificate with photograph	Bank Pass Book or certificate with photograph and residential address
d.	Voter ID Card with photograph and residential address	Voter ID Card with photograph and residential address
e.	Valid Driving License with photograph	Valid Driving License with photograph and residential address
f.	PAN Card issued by Income Tax Department	Letter from any recognised public authority at the level of gazetted officer like District Magistrate, Divisional Commissioner, BDO, Tehsildar, Mandal Revenue Officer, Judicial Magistrate etc.
g.	Certificate of Identity with photograph signed by a Member of Parliament or Member of Legislative Assembly	Certificate of address with photograph signed by a Member of Parliament or Member of Legislative Assembly
h.	Aadhar Card/letter issued by Unique Identification Authority of India	Aadhar Card/letter issued by Unique Identification Authority of India clearly showing the address
i.	Job Card issued by NREGA duly signed by an officer of State Government	Job Card issued by NREGA duly signed by an officer of State Government
j.	Photo ID card issued by Government, Defence, Paramilitary and Police Departments	Latest Electricity/water bill in the name of subscriber/ claimant showing the address (less than 6 months old)
k.	Ex-serviceman Card issued by Ministry of Defence to their employees	Latest Electricity/water bill in the name of subscriber/ claimant showing the address (less than 6 months old)
l.	Photo credit card	Latest property/house tax receipt (not more than one year old)
j	Identity card issued by Central/State government and its Departments, Statuary/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities and Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc.	Existing valid registered lease agreement of the house on stamp paper (in case of rented/leased house accommodation)

k.		The identity card/document with address, issued by any of the following: Central/State Government and its Departments, Statuary/Regulatory Authorities, Public Sector Undertakings, Schedules Commercial Banks, Public Financial Institution for their employees.
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### List of Abbreviations

<b>Abbreviations</b>	<b>Description</b>
AML	Anti-Money Laundering
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CERSAI	Central Registry of Securitization and Asset Reconstruction and Security interest of India.
CFT	Combating the Financing of Terrorism
CKYC	Central Know Your Customer
CKYCR	Central KYC Records Registry
CSC	Clients of Special Category
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
GoI	Government of India
KRA	KYC Registration Agency
LEA	Law Enforcement Agencies
MHA	Ministry of Home Affairs
ML	Money Laundering
NCCT	Non-Governmental Organisations
NGO	Non-Governmental Organizations
NRE	Non-Resident External
NRO	Non-Residential Ordinary
NTR	Non-Profit Organisation Transaction Report
PAN	Permanent Account Number
PEP	Politically Exposed Persons
PFRDA	Pension Fund Regulatory and Development Authority
PMLA	Prevention of Money Laundering Act
PML	Prevention of Money Laundering
PO	Principal Officer
POI	Proof of Identity
RTA	Registrar and Transfer Agent
SBIPFPL	SBI Pension Funds Private Limited
SEBI	Securities and Exchange Board of India
STR	Suspicious Transactions Report
TF	Terrorist Financing
UNSCR	United Nations Security Council Resolutions