

Prachetas Capital Private Limited

Prachetas Capital Private Limited | KYC & PMLA POLICY

Prachetas Capital Private Limited

VERSION 1.0

1. Terms and Definition

Beneficial Owner	means the natural person or persons (where the client is a company) who ultimately own/control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement
Client	means an Investor or a Portfolio Company
Compliance Officer (CO)	means the officer appointed by the IM to ensure compliance of activities with the relevant rules, regulations and laws.
Final Closing	The final closing shall be the last Closing permitted under the Fund Documents.
Fund or Scheme	means any Fund or Scheme of the Investment Manager
Investment Manager	means Prachetas Capital Private Limited, a private company, having its corporate office at 310, maker Chambers, Nariman Point, Mumbai-400021 appointed as the Investment Manager to the Fund in accordance with the terms contained in the Investment Management Agreement
Target investors	The Fund will issue units to 'Persons resident in India' and 'Persons resident outside India' including non-resident Indians, each as defined under the Foreign Exchange Management Act, 1999, high net worth individuals, Hindu undivided families, banks, financial institutions, bodies corporate, partnership firms, registered and unregistered trusts, societies, association of persons, offshore pooling vehicles and other persons as may be permitted by Applicable Law.
Interested Parties	means the employees, officers, and directors of the Investment Manager and/or its Affiliates. Affiliates would mean any person owned or controlled by or is under common ownership or control (directly or indirectly) of the IM. For the purposes of this definition, 'control' shall be measured by direct or indirect ownership of more than 50% of the voting rights in an entity
SIE	A Special Interest Entity (SIE) profile is of a legal entity which is alleged to have been involved in a criminal activity such as corruption, financial crime, trafficking, organized crime, terror, or tax crime.
SIP	A Special Interest Person (SIP) profile is of an individual who is alleged to have been involved in a criminal activity such as corruption, financial crime, trafficking, organized crime, terror, or tax crime

1 Introduction and Purpose

The Investment Manager is firmly committed to participating in the efforts to fight against Money Laundering (ML) and financing of terrorism (FT); it aims to comply with all applicable laws, regulations, and standards to ensure that it conducts its business only with acceptable clients and deter criminal activities.

The IM has thus implemented a KYC & Prevention of Money Laundering Activities Policy (PMLA Policy) to comply with applicable Laws, Regulations and Standards. The policy enables the Investment Manager to know and understand its clients and their financial dealings and provide ways to manage any associated risks, and subsequently prevent the Fund from being used (intentionally or unintentionally), by criminal elements for money laundering activities. It is incumbent on all the staff members to understand the Policy and adhere to the guidelines stipulated herein with letter and spirit.

2 Money Laundering and Associated Laws

Money laundering is the practice of engaging in financial transactions in order to conceal the identity, source, and/or destination of money, and is a main operation of the underground economy. As per PMLA (Prevention of Money Laundering) Act, whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity or its connected proceeds or crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property shall be guilty of the offence of money-laundering.

In the past, the term "money laundering" was applied only to financial transactions related to organized crime. Today its definition is often expanded by government regulators to encompass any financial transaction which generates an asset or a value as the result of an illegal act, which may involve actions such as tax evasion or false accounting. As a result, the illegal activity of money laundering is now recognized as potentially practiced by individuals, small and large businesses, corrupt officials, members of organized crime (such as drug dealers) or of cults, and even corrupt states, through a complex network of shell companies and trusts based in offshore tax havens.

The Investment Manager's main obligations in relation to Anti Money laundering are:

- / Adopt client acceptance policies and procedures
- / Follow Client Due Diligence and KYC procedures
- / Report suspicions to designated AML/Compliance Officer
- / Identify, monitor and report suspected money laundering or terrorist financing transactions to the relevant authorities
- / Compliance with relevant statutory and regulatory requirements
- / Report hits with freeze lists to the relevant authorities
- / Staff Training & Awareness
- / Record keeping for 5 years
- / Regular audits and review on compliance with procedures
- / Never inform the client

2.1 Associated Laws and Regulations

The key laws and regulations associated with Money Laundering are:

- / The Prevention of Money Laundering Act, 2002 (PMLA 2002 or the Act)
- / The Prevention of Money Laundering Rules, 2005 (Rules)
- / SEBI Circular No. SEBI/ HO/ MIRSD/ DOP/ CIR/ P/ 2019/113 dated October 15, 2019, Guidelines on Anti-Money Laundering (Master Circular)
- / SEBI circular No. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 (master circular)

2.2 PMLA (Anti-Money laundering in the Indian context)

The Prevention of Money Laundering Act, 2002 (PMLA 2002 or the Act) together with the Prevention of Money Laundering Rules, 2005 (Rules) and various circulars / Master Circular dated October 15, 2019, issued by Securities & Exchange Board

of India (SEBI) forms the core of the legal framework put in place by India to combat money laundering.

The PMLA 2002 Act and Rules and Circulars notified thereunder impose an obligation on banking companies, financial institutions and intermediaries to verify acceptance of clients, identity of clients, maintain records and furnish information to FIU-IND (refer section 7.2 of this Policy for more details). The PMLA provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) will now be treated as a scheduled offence under schedule B of the PMLA.

This policy document is based on the Guidelines and circulars issued by SEBI from time to time to suit specific requirements of the Investment Manager within the regulatory framework.

Various regulators like SEBI, RBI, IRDAI, etc. have also issued Anti Money Laundering (AML) guidelines and circulars, for prevention of money laundering through entities governed by these regulators.

3 Policy Approach

The approach to implement this policy is based on risk perception and money laundering threats with an aim to identify the types of customers that are likely to pose a higher-than-average risk of money laundering or terrorist financing. PMLA policy processes involve client identification and acceptance exercise with thorough due diligence for all types of clients, enhanced due diligence for higher risk accounts, and on-going monitoring for suspicious activities.

The key activities to implement the PMLA policy can be classified as Client Onboarding Assessment and On-going Monitoring and Reporting.

3.1 Client Onboarding

The Client Onboarding is applicable to both investors and portfolio companies and involves:

- / **Identification & Verification** of all clients and the Beneficial Owners (refer [Beneficial Owner](#) of this Policy for detailed process of identifying the Beneficial Owner).
- / Screening all clients to identify **Politically Exposed Persons (PEP's)**, **Special Interest Persons (SIPs)**, **Special Interest Entities (SIEs)** applicable sanctions, and adverse media.
- / Conducting a **Risk-based assessment** of client and/or client's business.
- / Conducting **Due Diligence** commensurate with the risk assessment to gain insight into the client's purpose and intended nature of the business relationship.

3.2 On-going Monitoring, Reporting and Review

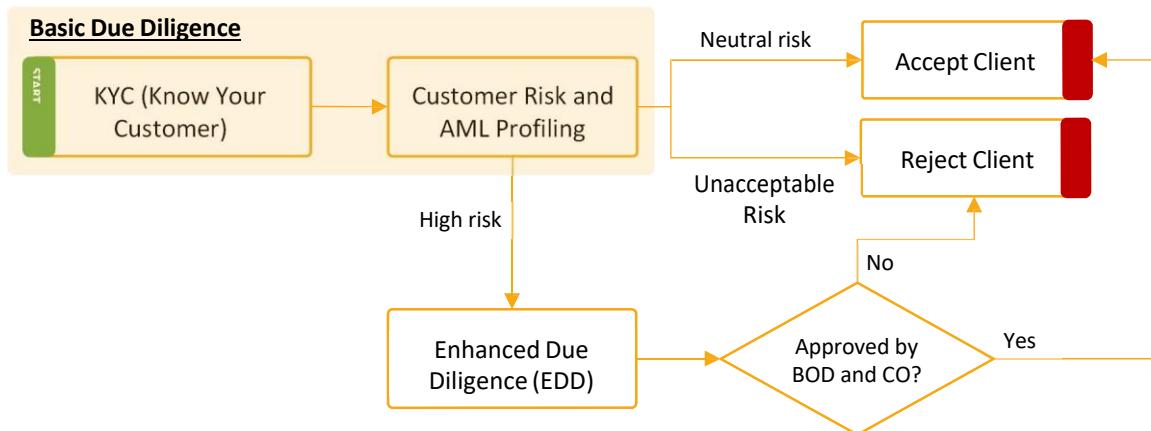
On-going Monitoring and Reporting involves:

- / Implementing **transaction monitoring and scrutiny** procedures to identify, assess and report suspicious activities.
- / Ensuring **Training and awareness** on money laundering and associated rules and regulations.
- / **Recording and preserving audit trail** of all client identification and transaction data for at least 5 years following the end of the client relationship.
- / **Reporting to Financial Intelligence Unit – India**, or any other agency designated by Securities and Exchange Board of India or Government of India, the details of transactions of all or selected clients, if and when requested or at such frequency as may be suggested by such agencies.
- / **Co-operating with investigative agencies/law enforcement agencies** in their efforts to trace the money laundering transactions and persons involved in such transactions.

- / Any information on the Fund clients or its PMLA policy is **prohibited to be communicated outside the Fund** as this might have serious legal implications.

4 Client Onboarding

The Client Onboarding process is defined to establish the client's identity and assess the risks associated with providing services to a client before accepting the client. Client Onboarding process involves the below steps.



4.1 KYC (Know Your Customer) – Client Identification and Verification

In the context of client onboarding and anti-money laundering, identification means establishing who a person or legal entity claims to be. This is done by taking and recording information provided by the client, covering the main elements of their identity. Verification of identity is the process of proving whether a person (natural or legal) actually is who he/she/it claims to be.

To establish the true identity of a person, either natural or legal, the Investment Manager will:

- / Establish the identity by obtaining information from the client, and
- / Verify the correctness of identity and the information received.

In the process establishing the true identity of the client, the IM ensures that it does the identification and verification of,

- / the legal entity
- / the natural person(s) acting on behalf of a legal entity, and
- / the beneficial owner, i.e., the natural person behind a legal entity

The overriding principle is that the Investment Manager must have a reasonable belief and be confident that it has established and documented the true identity of the client.

! Where satisfactory evidence of identity is not obtained in a reasonable time, the business relationship must be ended.

4.1.1 The Legal Entity

One or more natural persons may represent a legal entity and act on its behalf when establishing a business relationship, but it is the legal entity that is the applicant for the business. The process first needs to ensure adequate identification and verification of the legal entity.

The identity of a legal entity comprises of:

- / its full name, any other names that it may use or by which it is known or operates under, and
- / its registered office (or – depending on the laws governing its constitution – any equivalent such as 'domicile').

If the address from which the legal entity operates is different from the registered address, the operational address also needs to be identified.

To identify a legal entity the above details must be supplied by person(s) authorised to act on its behalf. This should be at least one of the officers/directors of the legal entity.

4.1.2 Natural Persons acting on behalf of a Legal Entity

The legal entity and/or its directors might appoint other person(s) to act on behalf of the legal entity during the business relationship. The identification procedures of a natural person should apply to this person. The legal entity should provide the Fund with copies of identity documents of those who act on behalf of the legal entity. It must be established that the documents obtained are valid at the time of the Client onboarding.

4.1.3 Beneficial Owner - Natural Person behind a Legal Entity

The Investment Manager must obtain sufficient information to identify the person(s) who beneficially own or control the client and/or his/her account.

Ultimate Beneficial Owner (UBO) or Beneficial Owner is defined as:

- / A person who ultimately (directly or indirectly), owns or has control of over 10% of the shares or of the voting rights of a company or 10% of a partnership, body of individuals, or a Trust.
- / A person who, based on facts or circumstances, apparently exercises decisive influence over the management of a legal entity.
- / A natural person on whose behalf a transaction or activity – based on facts and circumstances – apparently is being conducted.

For the purposes of AML, each UBO is treated as an individual entity and goes through the process of Basic Customer Due Diligence (KYC, Risk, and AML profiling). And depending on the result of the CDD, it may also be subject to EDD. Each UBO of the client is noted separately in the on-boarding report along with the CDD status.

! Intermediaries dealing with foreign portfolio investors may be guided by the SEBI circulars IMD/FPI&C/CIR/P/2019/124 dated November 05, 2019, or any amendment thereto for the purpose of identification of Beneficial Owners.

Exceptions for Beneficial Owner Identification

Where the client is a company listed (quoted) on an approved (stock/commodities) exchange or regulated by an appropriate financial regulator, or the client is a company that is a subsidiary of such a listed/regulated company, there is no need to identify the beneficial owner and officers or directors.

These exceptions do not apply if the legal entity (even though it is a listed/regulated company) is based in or operates from a country that is designated as a high money laundering risk country (refer [Appendix B](#) for a list of high-risk countries).

4.1.4 Know your Client (KYC) Profile

Know Your Customer (KYC) is a critical function to assess a client's identify and its risk profile, and also a legal requirement to comply with Anti-Money Laundering (AML) laws. The Investment Manager prepares a **Client Onboarding Report** covering Customer KYC profile with a checklist to ensure it captures the client's identity, its risk profile, due diligence requirements, and UBOs (if any).

KYC relevant SEBI Circular:

1. SEBI Circular No. MIRSD/Cir- 26 /2011 dated December 23, 2011, SEBI KYC Registration Agency (KRA) Regulations, 2011
2. SEBI Circular No. MIRSD/SE/Cir- 21/2011 dated October 5, 2011

4.1.5 Outsourcing

The IM may outsource KYC and Basic Due Diligence of its clients (investors and portfolio companies) to a third-party vendor.

To ensure that the third-party follows the Client Onboarding Process and checklists defined in the Client Onboarding process, the IM will act as an auditor (maker/checker) of the third-party vendor. The IM will get the Client Onboarding Report (as per an agreed format) from the vendor and perform a sample audit on the data to ensure the defined processes are being followed.

4.2 Risk Assessment

As part of the Client Onboarding process, all clients are screened before onboarding, and classified based on the risk categories identified below.

4.2.1 Neutral Risk

All clients are Neutral Risk clients unless identified as High-risk client; the Investment Manager will conduct Basic Due Diligence for Neutral Risk clients.

4.2.2 High Risk

High risk clients are identified based on;

- Client's background
- Client's business/activities
- Client's source and nature of funds
- Client's behaviour
- Country where the client conducts its business
- Country of the source of client's funds.

Refer [Appendix A](#) for a list of circumstances that indicate high-risk clients.

! A High-risk client can be accepted only after approval from the Board of Directors and the Compliance Officer.

4.2.3 Unacceptable Risk

Below risks are classified as unacceptable, and all engagements with the client with an identified unacceptable risk should be terminated as soon as practicable.

- / If the (potential) client is a barred or sanctioned entity, person or business or country identified in the lists included in [Appendix B](#).
- / If a convicted person owns or controls a (potential) client or beneficiary.
- / Client has no physical presence.
- / If there is doubt about the legitimacy of the business or the source of its funds and no sufficient proof to the contrary could be obtained.
- / Where satisfactory evidence of identity is not obtained in a reasonable time.

The risk profile of the client is reviewed and noted in the Client Onboarding Report.

4.3 Due Diligence

The cornerstone of a strong Anti-Money Laundering program is the adoption and implementation of comprehensive Due Diligence policies, procedures, and processes for all clients, particularly those that are identified as higher risk for money laundering and terrorist financing. IM classifies Due Diligence requirements as below:

4.3.1 Basic Customer Due Diligence (CDD)

All clients go through the basic Customer Due Diligence (CDD) to start, in which information is obtained from the client and documents are verified through the KYC process, alongside creating a risk and AML profile of the client. If the client is identified as a high-risk customer, then Enhanced Due Diligence (EDD) is conducted.

! A neutral risk client may turn into a high-risk client during on-going transaction monitoring if a suspicion is noted or if new information is obtained or discovered during the course of the business relationship.

4.3.2 Enhanced Due Diligence (EDD)

Under Enhanced Due Diligence (EDD) additional documents (identify and income proof, proof of source of funds) and information are collected from the client to get a deeper understanding of the client's identify, business activities, source of funds, and their need to use IM services.

4.3.3 Client Onboarding Report

The IM maintains a Client Onboarding Report with client's KYC, Risk, UBO, and AML information and updates (as and when new information is obtained, or a suspicious activity is noted) this while being in the relationship. By retaining adequate record with all underlying considerations, the IM must be able to show compliance with the laws, and regulations, and demonstrate that its actions were appropriate.

Keeping records of all the CDD and EDD performed on each customer, or potential customer, is necessary in case of a regulatory audit.

5 On-going Monitoring, Reporting, and Review

5.1 On-going Monitoring

It is mandatory for the Fund to monitor its client relationships regularly and report any suspicious transactions to the relevant authorities.

The Fund shall,

- / maintain records of the identity and address of their clients and their transactions in hard and/or soft format for a period of 5 years from the date of end of a client's relationship.
- / introduce and evolve a system of maintaining records in a manner that allows data to be retrieved easily and quickly whenever required by the Fund, or when requested by the competent authorities.
- / maintain all necessary information so as to permit the reconstruction of individual transactions with details as:
 - o the date, amount and currency of the transaction
 - o the parties to the transaction
 - o the nature of the transaction

! The Investment Manager will not enter into any cash transactions with clients for any reason whatsoever.

5.2 Reporting of Suspicious Transactions

The Rules notified under the PMLA defines "suspicious transaction" as a transaction (whether or not made in cash) which, to a person acting in good faith:

- / gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime.
- / appears to be made in circumstances of unusual or unjustified complexity.
- / appears to have no economic rationale or bona fide purpose.

The Act and Guidelines prescribe that the clients should be subject to ongoing scrutiny throughout the course of a business relationship. Refer [Appendix C](#) for a list of circumstances that indicate suspicious transactions.

5.3 Reporting to FIU-IND

FIU-IND has developed a utility for submission of transaction report online. The required information is to be furnished by the IM directly to the FIU-IND online on <https://finnet.gov.in>.

A copy of the information furnished shall be retained by the Principal Officer for the purposes of official record. Reporting of transactions should be carried out in such format and such manner, as prescribed by FIU and other regulatory authorities from time to time.

5.4 AML Review of Existing Clients

The Investment Manager should conduct a review of the clients (investors and portfolio companies) whenever new information is obtained, or when an existing client applies for a new product or service, or if there is a case of suspicious transaction identified for a client.

It is noted that a regular review of client's AML profile is not required by the IM because,

- / the IM never accepts from its clients or distributes cash to its clients for any transaction whatsoever, so there is always a digital trail of the money coming in and going out of its Funds.
- / IM's investors cannot deposit money in its Funds as and when they want; the IM determines the time and amount to be called from each investor.
- / the investors cannot withdraw their investment as and when they want; the IM determines how much money will be distributed and when for each investor.

6 Principal Officer

The Investment Manager has designated a Principal Officer who shall be responsible for implementation and compliance of this policy.

His illustrative duties will be as follows:

- / Providing information about his role and designation to the Office of the Director, [FIU-IND](#).
- / Monitoring the effective implementation of this Policy
- / Ensuring compliance with AML rules and regulations, including testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions.
- / Reporting suspicious transactions to Office of the Director, [FIU-IND](#).
- / Ensuring high level of awareness of front-line staff of their responsibilities related to AML.
- / Lessoning with law enforcement agencies and providing required information in a timely manner.
- / Providing clarifications/training to staff members, and guidance to the Board on the provisions of the Act, Rules, Guidelines and the policy of the company.

7 Staff Hiring, Training & Awareness

The Investment Manager shall ensure that staff hired or appointed (through transfers or promotions) for the purposes of dealing with clients is suitable and competent for the job. Appropriate background verification in the form of reference checks should be conducted before a person is confirmed for the job. The steps taken to ascertain the background of the employee(s) must be documented.

7.1 Training for Staff

Adequate training is imparted to all staff handling client related activities so as to ensure that the contents of this Policy and PMLA guidelines are understood and to develop awareness and vigilance to guard against money laundering and terrorist financing.

All employees (including managers) who are part of the Fund team go through training on PMLA rules, regulations, and this policy.

7.2 Training for Senior Management and Board Members

The Principal Officer and the Compliance Officer ensures the designated partners updated on matters related to PMLA. Designated Partners are made aware of the AML rules, regulations, policies, and guidelines on a regular basis through emails and notifications.

The Board also goes through formal and informal training and awareness sessions to understand how to evaluate and accept high-risk clients.

Refresher training is conducted whenever there is a major update in the rules and regulations, or when there is an update to this policy.

8 Internal Audit

An internal audit of compliance to this policy will be conducted as and when required by the IM. The internal audit team ensures that the objectives of this policy are met by doing a sample check on the data to,

- / ensure that the team is aware of PMLA rules, regulations, guidelines, and this policy
- / ensure that the IM and the third-party vendors (if any) have followed the processes, procedures, and checklists defined in this policy
- / ensure that proper AML checks are in place, and are followed before onboarding any new client (investor or portfolio company)
- / ensure that transaction monitoring is done to identify any suspicious transactions
- / ensure that transactions are recorded properly with required information and can be retrieved easily when needed
- / ensure that the Principal Officer has track of suspicious transactions (if any) and aware of the process of reporting those to FIU-IND.

9 Policy Review

A periodical review of this policy is conducted by the Compliance Officer/ Designated Partners to discuss the latest rules, regulations, learnings from the year and the policy is updated (if needed) and approved for implementation.

10 Duties for all employees

All employees, especially those with client contact and those handling payments must be in a position to identify a suspicion of money laundering transaction and have a duty to report any unusual transaction or suspicion to the Compliance Officer and the Principal Officer

At the same time, all staff is prohibited to communicate any information on Client Onboarding and money laundering suspicions to the client and/or outside the Fund, such as tipping off suspicious entities or persons or leaking the names of Fund representatives to potential suspicious entities or persons unless ordered by the courts or authorities.

11 Version History

Version	Date	Author	Approver	Approved On	Remarks
1.0					First version

Annexure A

HIGH RISK CLIENT SCENARIOS

Indicator Type	Case/Circumstance/Scenario
Client Behavior	Reluctance to provide information or documents
	Where it appears that the legal entity is not carrying out any trading or economic activities or is NOT conducting business in the place/country where it has its registered office.
	Companies with complex ownership structures or lacks transparency in Beneficial Ownership.
	Businesses/activities that are known to be vulnerable to illegal or criminal activities, or subject to strong negative public opinion.
	Clients with dubious reputation as per public/regulatory information available.
	Client debarred from the securities market or from dealing in the securities market https://www.bseindia.com/investors/debent.aspx
	Convicted by any court for any crime (based on AML scan)
Nature or source of funds	Entity mentioned in Ministry of Corporate Affairs (MCA) Strike-Off list. https://www.mca.gov.in/MinistryV2/companies_stuckoff_248.html
	After assessing the source and nature of funds, there is a reasonable doubt as to whether the money or monetary instrument offered to the Fund is the proceeds of crime.
PEP	Client owned or controlled by PEP/SIP/SIE, or if a PEP/SIP/SIE is a Beneficial Owner in the Client's business (based on AML Scan).
Businesses Susceptible to Money Laundering Activity	<ul style="list-style-type: none"> / Restaurants/Bars/Nightclubs30 / Parking garage / Laundromats / Pawnbrokers / On-line (Internet) gambling and gaming companies / Casinos / Travel Agencies / Charitable Organizations / Foundations / Jewel, gem and precious stone dealers / Art, antique dealers / Retail sellers of Luxury (High Value) Items / Auctioneers / Shipping Companies / Trading Companies (a company that provides a link, or contact, between commercial buyers and sellers in different countries) / Exchange Houses /Casa de Cambios / Cheque Cashers / Money Transmitters / Currency Dealer or Exchanger / Non-bank issuer of traveller's checks, money orders or stored value cards / Non-bank providers of export or trade finance / Providers of informal or "underground" value transfer systems such as the Hawala, Hundi, Chit System / Personal Investment Companies

Indicator Type	Case/Circumstance/Scenario
	<p>/ Real Estate Investment Trusts</p> <p>/ Accountants, lawyers, trustees, notaries – to the extent that they are transacting on behalf of their clients that are unknown to the Fund.</p>

Annexure B

Unacceptable Risk Indicators

Case/Circumstance/Scenario
Clients who have a permanent address or are conducting business in or through a high-risk country indicated as such by different agencies.
These are countries where:
/ effective money laundering controls is suspect
/ there is unusual banking secrecy
/ there is active narcotics production
/ where corruption is highly prevalent
/ government sanctions are applied
/ countries reputed to be - havens/sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
Clients associated with these countries might be unacceptable risk to the Fund. Certain activities or dealing with certain (potential) clients might be fully prohibited. The lists must be checked properly.
FATF High Risk Countries
https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/?hf=10&b=0&s=desc(fatf_releasedate)
OFAC SDN-list:
https://sanctionssearch.ofac.treas.gov/
UN Consolidated List
https://www.un.org/securitycouncil/content/un-sc-consolidated-list
FATF NCCT List
https://www.fatf-gafi.org/publications/?hf=10&b=0&q=NCCT&s=desc(fatf_releasedate)

Annexure C

Suspicious Transaction Indicators

Frequent changes in the legal structure of a client's company which has no clear Justifications.
Payments received from an unrelated party.
A dormant client suddenly becomes active.
Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting.