ANTI-MONEY LAUNDERING (AML) AND COUNTERING THE FINANCING OF TERRORISM (CFT) POLICY

(FOR CATEGORY 3 ALTERNATE INVESTMENT FUND – Prepared in accordance with SEBI (AIF) Regulations, 2012, PMLA 2002 & SEBI AML Guidelines)

Objective & Scope:

This AML/CFT Policy establishes the internal framework, systems, controls and monitoring practices adopted by the **Category III AIF ("the Fund")** to comply with:

- Prevention of Money Laundering Act, 2002 (PMLA)
- Prevention of Money Laundering (Maintenance of Records) Rules, 2005
- SEBI (AIF) Regulations, 2012 (as amended)
- SEBI Master Circular on AML/CFT
- FATF Recommendations

The objective is to ensure the Fund is **not misused for money laundering, terrorist financing, proliferation financing or other illicit financial activities**.

Regulatory Compliance Requirements:

The Fund shall comply with:

1. **SEBI (AIF) Regulations, 2012** – including KYC, investor suitability, documentation & reporting requirements.
2. **PML Rules** – maintenance of records, CDD, identification of beneficial owners, monitoring & reporting.
3. **SEBI AML/CFT Master Circular** – risk-based approach, KYC procedures, enhanced due diligence.
4. **FATF guidelines** – international best practices for alternative investment structures.

The Fund's Manager, Sponsor and Compliance Officer shall ensure **ongoing monitoring of regulatory amendments**.

Customer Due Diligence (CDD)

The Fund follows a **Risk-Based Approach (RBA)** for investor onboarding.

1. KYC Verification

The Fund shall verify:

- PAN, Aadhaar (where permitted), proof of address
- Certificate of Incorporation / Partnership Deed / Trust Deed (for non-individuals)
- CIN, GST, UBO details
- FATCA/CRS Self-certification

- SEBI-mandated KYC records through KRA (CVL/KFin/CAMS)

2. **Identification of Beneficial Owners (BO)**

As per PML Rules:

- 10% ownership threshold for companies
- 15% for trusts
- Control-based BO identification where ownership fails

3. **Enhanced Due Diligence (EDD)**

EDD applies to:

- Politically Exposed Persons (PEPs)
- NRI/OCI investors via NRO/PIS routes
- High-risk jurisdictions
- Complex structures / layered ownership

EDD includes:

- Source of funds declaration
- Bank statements / audited financials
- Senior management approval before onboarding

4. **Ongoing Due Diligence**

- Annual review of investor information
- Periodic KYC refresh
- Name-screening against **UN Sanctions List**, domestic FIU alerts, FATF lists

5. **Record Keeping**

The Fund shall maintain for **minimum 5 years** (or longer if required by FIU-IND):

1. **KYC records** of all investors
2. **Transaction records**, especially:
    - Investments, redemptions, capital calls
    - High-value transactions ≥ ₹10 lakh
3. **Suspicious Transactions (STR)** logs
4. **Wire transfer / bank movement details**

6. **Risk rating classification**

All records will be maintained in **digital format**, retrievable for audits, SEBI inspections and FIU requirements.

Transaction Monitoring Framework

The Fund shall monitor all transactions, including:

1. **Monitoring Parameters**

- Sudden large capital contributions
- Investment patterns inconsistent with investor profile
- Complex routing of funds through layered entities
- Repeated subscription & early redemption patterns
- Cross-border transfers from high-risk jurisdictions

2. **Category III AIF Specific Monitoring**

Because Category III AIFs use **leverage, derivatives & high-frequency trading**, monitoring will include:

- Funding sources for margin requirements
- Movement of funds supporting leveraged positions
- Unusual derivative exposure patterns
- Rapid movement of capital account credits/debits

3. **Tools**

- Automated alerts by custodian / fund accountant
- Periodic exception reports
- Compliance sign-off on unusual transactions

Reporting to FIU-IND

The Fund shall file reports as per law:

1. **Suspicious Transaction Report (STR)**

- Filed within 7 working days of suspicion being established
- No tipping-off to investor permitted

2. **Cash Transaction Report (CTR)**

(Not typically applicable to AIFs as transactions are non-cash)

3. **Non-Profit Organisation (NPO) Transaction Reports**

If applicable, for contributions ≥ ₹10 lakh.

4. **Cross-Border Wire Transfer Reports**

For amounts ≥ ₹5 lakh equivalent.

Internal Controls & Governance

Compliance Officer

A SEBI-fit & proper person appointed as **Compliance Officer**, responsible for:

- Ensuring implementation of AML Framework
- Filing FIU-IND reports
- Training staff
- Reviewing investor-level risk assessments
- Liaison with SEBI and FIU-IND

Internal Audit & Review

- Annual AML review
- Testing of CDD, KYC and recordkeeping
- Review of custodian & fund accountant reports

Escalation Matrix

Levels of review:

1. Analyst →
2. Senior Compliance Manager →
3. Compliance Officer →
4. Manager / Trustee (where required)

Risk Classification of Investors

Investors are classified as:

Low Risk

- Resident Individuals
- Listed companies
- Government entities

Medium Risk

- Private companies
- HUFs
- Partnership firms

High Risk

- PEPs
- NRI/OCI from high-risk geographies
- Trusts & offshore entities
- Investors routed through complex structures

Risk rating determines **monitoring frequency & KYC refresh cycle**.

Specific Obligations for Category III AIF

Category III AIF must additionally ensure:

1. **Leverage Reporting Compliance**
2. **Monitoring of collateral movements & margin funding**
3. **Verification of investor eligibility** for complex/derivative strategies
4. **Oversight on use of funds for short-term trading / derivatives**
5. **Reporting obligations under SEBI circulars for Category III AIFs**

Employee Training & Awareness

- Annual AML training for all staff
- Specialised training for compliance, operations, and investment teams
- Training on detection of suspicious patterns, complex structures & red flags

Whistleblower Protection

The Fund encourages employees to report AML/CFT concerns.
All employees are protected from retaliation under an approved **Whistleblower Policy**.

Record of Rejections & Terminations

The Fund maintains:

- Log of rejected applications
- Reasons for rejection
- STRs associated with termination of investor relationships

Review & Updates to Policy

This policy will be reviewed:

- Annually
- Upon changes in SEBI/PMLA regulations
- Upon directions from FIU-IND or any enforcement authority

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