

## GLOBAL AML POLICY ADDENDUM

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| Region            | Asia Pacific                                                 |
| HSBC Legal Entity | HSBC Securities and Capital Markets ( India) Private Limited |
| Line of Business  | GBM – HSCI                                                   |

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| Country VL #P1<br>Section 3.2 | Know Your Customer                                                                                                                                                  |
| Summary of Requirement        |                                                                                                                                                                     |
| Variance                      | To include the definitions as provided under The Prevention of Money Laundering Act, 2002 (PMLA) as well as guidance from the local regulator (SEBI) related to KYC |

### Resultant Change to the Policy

#### 3.2. Know Your Customer ('KYC')

##### 1. The terms 'Person' and 'Transaction' have been defined below:

###### A. 'Person' means:

- a. an individual;
- b. a Hindu Undivided Family (HUF);
- c. a company;
- d. a firm;
- e. an association of persons or a body of individuals, whether incorporated or not,
- f. every artificial juridical person, not falling within any one of the above persons (a to e), and
- g. any agency, office, or branch owned or controlled by any of the above persons (a to f).

###### B. 'Transaction' means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes:

- a. opening of an account;
- b. deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non physical means;
- c. the use of a safety deposit box or any other form of safe deposit;
- d. entering into any fiduciary relationship;
- e. any payment made or received, in whole or in part, for any contractual or other legal obligation; or
- f. establishing or creating a legal person or legal arrangement.

##### 2. For verification of identity of individuals (natural persons) any one of the Officially Valid Document (OVD) as defined under PMLA Rules shall be obtained for verification of identity and address:

- a. the passport,
- b. the driving licence,
- c. the Permanent Account Number (PAN) Card,
- d. the Voter's Identity Card issued by Election Commission of India,
- e. job card issued by NREGA duly signed by an officer of the State Government,
- f. the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number or
- g. any other document as notified by the Central Government in consultation with the Regulator

Provided that where simplified measures are applied for verifying the identity of the clients the following documents shall be deemed to be officially valid documents:

- i. identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;
- ii. letter issued by a gazetted officer, with a duly attested photograph of the person.

Provided further that where 'simplified measures' are applied for verifying, for the limited purpose of, Proof of Address the following additional documents are deemed to be OVDs:

- i. Utility bill, which is not more than two months old, of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ii. Property or Municipal Tax receipt;
- iii. Bank account or Post Office savings bank account statement;
- iv. Pension or family Pension Payment Orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- v. Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and
- vi. Documents issued by Government departments of foreign jurisdictions or letter issued by Foreign Embassy or Mission in India.

### 3. Uniform KYC

With a view to bring about uniformity in securities markets, it has been decided that the same KYC form and supporting documents shall be used by all SEBI registered intermediaries. The prescribed KYC form shall be filled by an investor at the account opening stage while dealing with any of the SEBI registered intermediaries. Additional details specific to the area of activity of the intermediary but not covered in the KYC form can be separately obtained by the intermediary as part of the account opening form.

KYC Registration Agency (KRA) is a SEBI registered entity under KRA Regulations, 2011. KRA maintains KYC records of investors on behalf of capital market intermediaries registered with SEBI. It is an electronic documentary source for completing customer due diligence, and reliance on the documents maintained in the KRA is acceptable to complete KYC for accounts opened.

### 4. Central KYC Registry (CKYCR)

The KYC information and documents of the customers should be obtained and recorded on the Central KYC Records Registry (CKYCR). CKYCR means an entity defined under PMLA Rules, to receive, store, safeguard and retrieve the KYC records in digital form of a customer. The KYC records received and stored by the CKYCR could be retrieved online by any reporting entity across the financial sector for the purpose of establishing an account based relationship in terms of the PMLA and Rules notified thereunder.

### 5. Use of Aadhaar through electronic means for identity verification of Individuals

The Government of India has launched a service for providing identification number known as Aadhaar to all the residents of India. 'Aadhaar number' means an identification number issued to an individual based on the demographic and biometric information of an individual. This identity number is issued through a statutory authority, named Unique Identification Authority of India (UIDAI).

UIDAI provides various modes for verification of identity of the individuals through electronic means. PMLA/ Rules provide for acceptance of 'Aadhaar' as one of the valid identity document. Under these provisions information obtained through e-KYC service of UIDAI shall be accepted as a valid process for KYC verification, provided an authorisation is obtained from the individual user authorising UIDAI by way of explicit consent to release his/her identity/address through biometric authentication.

### 6. Beneficial Ownership

Under PMLA and SEBI guidelines notified thereunder, beneficial owners have been defined as:

#### A. For clients other than individuals or trusts:

Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- a. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

**Explanation:** Controlling ownership interest means ownership of/entitlement<sup>1</sup> to:

- i. equal to or more than 10% of shares or capital or profits of the juridical person, where the juridical person is a company;
- ii. equal to or more than 10% of the capital or profits of the juridical person, where the juridical person is a partnership; or

- iii. equal to or more than 10% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- b. In cases where there exists doubt under clause 4 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

**Explanation:** Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

- c. Where no natural person is identified under clauses 4 (a) or 4 (b) above, the identity of the relevant natural person who holds the position of senior managing official.

**B. For client which is a trust:**

Where the client is a trust, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, shall include identification of the author of the trust/settlor, the trustee, the protector, the beneficiaries with 10% 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.

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| Country VL #P2<br>Section 1.7 | AML Programme Structure Overview                                                                                                                                            |
| <b>Summary of Requirement</b> |                                                                                                                                                                             |
| Variance                      | <ul style="list-style-type: none"> <li>• Introducing the role of Designated Director in line with PMLA/Rules</li> <li>• Additional responsibilities for the MLRO</li> </ul> |

**Resultant Change to the Policy**

Amend 1.7 for introducing the role of Designated Director and including additional responsibilities of the MLRO role

The table below outlines key AML roles and responsibilities with the Programme:

| <b>AML PROGRAMME RESPONSIBILITIES</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <b>Role</b>                           | <b>Responsibilities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Designated Director                   | <p>SEBI registered intermediaries are required to nominate a person as 'Designated Director', as per the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (Rules), to ensure overall compliance with the obligations under the Act and Rules. The name, designation and address of the Designated Director is to be communicated to the Director, Financial Intelligence Unit – India (FIU-IND).</p> <p>'Designated Director' means a person designated by the reporting entity (bank, financial institution, etc.) to ensure overall compliance with the obligations imposed under chapter IV of the PML Act and the Rules. For the corporate entities, the Designated Director may be the Managing Director or a Whole-time Director duly authorised by the Board of Directors.</p> <p>For HSCI, Mr Vipul Malkan, Director Risk and Services, has been appointed as the Designated Director.</p> |

<sup>1</sup>HSCI has adopted and applied the thresholds per Group/Regional Standards which are higher than local standards. Below for reference only, locally defined threshold are:

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

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| <p>Nominated Officer/<br/>Money Laundering<br/>Reporting Officer<br/>(‘MLRO’)/Principal<br/>Officer</p> | <p>In some jurisdictions there is a regulatory requirement to have a nominated officer or MLRO, approved by local regulatory authorities and responsible for:</p> <ul style="list-style-type: none"> <li>• Oversight of applicable transaction monitoring process</li> <li>• Making the decision to file or not file a SAR</li> <li>• Ensuring employees are aware of the prohibition against 'tipping off'</li> <li>• Receiving and reviewing internal disclosures</li> <li>• Submission of the MLRO report on the operations and effectiveness of systems and controls to combat money laundering</li> </ul> <p>The MLRO may be the Head of AML</p> <p>As per the SEBI Master circular on AML dated 31 December 2010, intermediaries must appoint a Principal Officer who would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. It is advisable that the ‘Principal Officer’ is of a sufficiently senior position and is able to discharge the functions with independence and authority.</p> <p>The Principal Officer will be responsible for timely submission of Suspicious Transaction Report to FIU-IND. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious.</p> <p>Further, the role and responsibilities of the Principal Officer should include overseeing and ensuring 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.</p> <p>The Principal Officer will also be responsible for timely submission of cash transaction report (CTR), suspicious transaction report (STR), reporting of counterfeit notes, all transactions involving receipts by non-profit organisations of value more than ₹1m or its equivalent in foreign currency, cross border wire transfers of value more than ₹0.5m or its equivalent in foreign currency to the Financial Intelligence Unit – India (FIU-IND).</p> <p>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.</p> |
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| <p>Country VL #P3<br/>Section 3.1</p> | <p>Customer Identification and Verification (ID&amp;V)</p>                                                               |
| <p><b>Summary of Requirement</b></p>  |                                                                                                                          |
| <p><b>Additions</b></p>               | <p>To include the guidelines as prescribed, by the local regulator for performing CDD for specific types of entities</p> |

## Resultant Changes (Additions) to the Policy

### 3.1.1 Special Customer Due Diligence (CDD) Procedures

For the purpose of completing a minimum of two verification checks to validate the identity and address, the documents obtained should also be able to meet the following local regulatory requirements:

#### 1. For Individuals

Obtain following documents from an individual while establishing an account based relationship:

- a. one certified copy of an OVD containing details of identity and address;
- b. such other documents pertaining to the nature of business or financial status as may be required by the reporting entity.

Provided that information collected from customers for the purpose of opening of account shall be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer.

2. For opening an account of a **company**, one certified copy of each of the following documents shall be obtained:
  - a. Certificate of incorporation.
  - b. Memorandum and Articles of Association.
  - c. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf.
  - d. Officially valid documents in respect of managers, officers or employees holding an attorney to transact on its behalf.
3. For opening an account of a **partnership firm**, one certified copy of each of the following documents shall be obtained:
  - a. Registration certificate.
  - b. Partnership deed.
  - c. Officially valid documents in respect of the person holding an attorney to transact on its behalf.
4. For opening an account of a **trust**, one certified copy of each of the following documents shall be obtained:
  - a. Registration certificate.
  - b. Trust deed.
  - c. Officially valid documents in respect of the person holding a power of attorney to transact on its behalf.
5. For opening an account of an **unincorporated association or a body of individuals**, one certified copy of each of the following documents shall be obtained:
  - a. resolution of the managing body of such association or body of individuals;
  - b. power of attorney granted to transact on its behalf;
  - c. Officially valid documents in respect of the person holding an attorney to transact on its behalf and
  - d. such information as may be required by the RE to collectively establish the legal existence of such an association or body of individuals.

**Explanation:** Unregistered trusts/partnership firms shall be included under the term 'unincorporated association'.

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| Country VL #P4<br>Section 1.1 | Introduction – Purpose and Scope                                              |
| Summary of Requirement        |                                                                               |
| Clarification Note            | Elaboration/Definition of Money Laundering, Terrorist Financing and Terrorism |

## Resultant Change to the Policy

### Amend 1.1

#### 1.1. Purpose and Scope

In order to meet applicable requirements<sup>1</sup> and guidelines, mitigate potential compliance, regulatory, and reputational risks associated with violations of Anti-Money Laundering, Counter Terrorist Financing, and Proliferation Financing (hereafter collectively referred to as AML) regulations, HSBC Holdings PLC (HSBC, HSBC Group or Group) established a Global AML Programme Policy (hereafter, referred to as 'Policy' or 'the written Global AML Programme' or 'HSBC Global AML Programme' or 'the Programme').

Money Laundering ('ML') is a criminal or attempted criminal act to conceal or disguise the identity of illegally obtained proceeds, so that they appear to have originated from legitimate sources. The Programme applies not only to money laundering, but also to terrorist financing and proliferation financing, unless otherwise specified. All references to money laundering and AML in the Programme and other supporting local policy and procedures include terrorist financing and proliferation financing where appropriate. The HSBC Group will comply with both the specific provisions and the spirit of all relevant laws and regulations.

ML generally involves a three-stage process that requires: first, moving the funds from direct association with the crime; second, disguising the trail to foil pursuit; and third, making the money available to the criminal once again with the occupational and geographic origins hidden from view.

## As per Section 3 of Prevention of Money Laundering Act, 2002

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.

Terrorist Financing is the provision or collection of funds with the intention that they should be used (or in the knowledge that they are to be used), in full or in part, in order to carry out acts that are associated with the support of terrorists or terrorist organisations, whether to further their causes or to commit acts of terrorism. According to the United Nations, terrorism are 'criminal acts intended or calculated to provoke a state of terror in the general public, a group of persons or particular persons for political purposes are in any circumstance unjustifiable, whatever the considerations of a political, philosophical, ideological, racial, ethnic, religious or any other nature that may be invoked to justify them.'

## As per Rule 2 of Prevention of Money Laundering (Maintenance of Records) Rules

Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organisation or those who finance or are attempting to finance terrorism.

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| Country VL #P5<br>Section 6 | Identification and Escalation of Unusual/Suspicious Activity                  |
| Summary of Requirement      |                                                                               |
| Variance                    | To include the various reporting requirements mandated by the local regulator |

## Resultant Change to the Policy

### Amend Section 6 and Section 6.1

As per the Prevention of Money Laundering Act (PMLA) 2002, all reporting entities are required to furnish to the Financial Intelligence Unit, India (FIU-IND) information relating to:

- i. All cash transactions of the value of more than ₹1,000,000 or its equivalent in foreign currency;
- ii. All series of cash transactions integrally connected to each other which have been valued below ₹1,000,000 or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds ₹1,000,000.
- iii. All transactions involving receipts by non-profit organisations of value more than ₹1,000,000 or its equivalent in foreign currency.
- iv. All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
- v. All 'cross border' 'wire transfers' of the value of more than ₹500,000 (or its equivalent in foreign currency) where either the origin or destination of fund is in India.
- vi. All suspicious transactions whether or not made in cash (including attempted transactions)

'Non-Profit Organisations' (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).

The reports specified under serial number (i) to (v) are required to be filed on a monthly basis with in 15 calendar days, after close of each calendar month. STR are required to be filed within 7 days from the date of determination of suspicion by the PO. Delay in submission of regulatory reports is liable for penalty as per the provisions under PMLA/Rules.

### 6.1. Identification and Escalation of Unusual/Suspicious Activity

'Suspicious transaction' means a 'transaction' as defined below, 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 as specified in the Schedule to the PMLA, regardless of the value involved; or
- b. Appears to be made in circumstances of unusual or unjustified complexity; or
- c. Appears to not have economic rationale or bona-fide purpose; or
- d. Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

**Explanation:** Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organization or those who finance or are attempting to finance terrorism.

Robust software, throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers shall be put in to use as a part of effective identification and reporting of suspicious transactions.

Given the difference in local laws regarding the reporting of suspicious activity, and in some cases the absence of such law, this Policy establishes a uniform global minimum standard by which HSBC entities, wherever located, are to determine whether activity is unusual for purposes of internal referrals by appropriate employees

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| <b>Country VL #P6</b><br><b>Section 6.3.1</b> | Suspicious Activity Reporting (SAR) and Tracking at Country Level                           |
| <b>Summary of Requirement</b>                 |                                                                                             |
| <b>Variance</b>                               | To include the local regulatory guidance regarding operations in account post filing of STR |

## Resultant Change to the Policy

Amend section 6.3.1.

### 6.3.1. Suspicious Activity Reporting (SAR) and Tracking at Country Level

To ensure compliance with suspicious activity reporting requirements, written Country AML procedures must include the following:

- a. Document report filing standards in accordance with local AML laws, rules, and regulations;
- b. Report/file unusual, suspicious, and potentially suspicious transactions and/or activity in accordance with those standards;
- c. Track investigation and SAR statistics for monthly management reporting to RAMLO;
- d. Provide appropriately customised training on the detection and reporting of any unusual activity flags or suspicious activity; and
- e. Develop reporting standards consistent with applicable local law, for the escalation of SAR information to the RAMLO and GAMLO.
- f. Business shall not put any restriction on operations in the accounts where an STR has been filed to FIU-IND.

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| <b>Section 1.4</b><br><b>Country VL #P7</b> | Regulatory Environment                    |
| <b>Summary of Requirement</b>               |                                           |
| <b>Addition</b>                             | Inclusion of local regulatory authorities |

Amend 1.4

### 1.4 Regulatory Environment

The Programme is based on various laws, regulations, regulatory guidance, financial crime trends, typologies, and higher risk indicators ('requirements') from the following territories' regulatory regimes: the United Kingdom, and more broadly the European Union, Hong Kong, and the United States of America. As significant deviations exist among the various sources, the Programme incorporated, when possible, the highest, and/or most effective approach. HSBC considers the applicability of the various requirements into the Programme without hindering efforts or compliance in jurisdictions. Throughout the various sections, regions and countries should consult their particular local jurisdictional requirements directly to ensure that they are in full compliance with AML obligations, and apply the HSBC standard or local/regional standard, whichever is the higher of the two.

In terms of the provisions of Prevention of Money-Laundering Act, 2002 and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PMLA/Rules), Regulated Entities (REs, including banks) are required to follow customer identification procedures while undertaking a transaction either by establishing an account based relationship or otherwise and monitor their transactions.

In terms of the Amendment to the PML Rules notified by the Government of India on 22 September 2015, the Director, FIU-IND shall have powers to issue guidelines to the REs (including banks) for detecting transactions referred to under PML Rules, to direct them about the form of furnishing information and to specify the procedure and the manner of furnishing information.