

Mirae Asset Investment Managers (India)
Private Limited IFSC Branch

Policy on Enhance Due Diligence for High Risk
Profile

Change Matrix

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INDEX

Sr No.	Name of the Topic
1	Introduction
2	Requirement for Enhance Due Diligence
3	Step involved in Enhance Due Diligence
4	Detailed Procedure for Enhanced Due Diligence
5	Document to be sought from Investor for Enhance Due Diligence (Detailed Checklist)
6	Caution

1. Introduction

Enhanced Due Diligence (EDD) is a process conducted by Regulated Entity, financial institutions, and other organizations to gather a higher level of information and scrutiny on clients, customers, vendors, and other relevant parties. EDD goes beyond basic due diligence measures and involves a more comprehensive assessment of potential risks associated with a business relationship.

Key aspects of enhanced due diligence include:

Detailed Information Gathering: EDD involves collecting extensive information about the entity or individual, such as financial records, beneficial ownership details, sources of funds, and transaction history.

Risk Assessment: Conducting a thorough risk assessment to identify and evaluate any potential risks, including money laundering, terrorism financing, fraud, or other illicit activities.

Enhanced Monitoring: Implementing enhanced monitoring mechanisms to track and review the ongoing activities and transactions of the entity or individual.

Enhanced Verification: Verifying the identity and legitimacy of the entity or individual through additional checks, such as conducting in-depth interviews, using third-party verification services, and reviewing supporting documentation.

Compliance with Regulations: Ensuring compliance with regulatory requirements, such as anti-money laundering (AML) laws, know your customer (KYC) guidelines, and other relevant regulations.

2. Requirement for Enhance Due Diligence

IFSCA has issued a detailed guideline on AML and CFT called “International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, which explicitly mandate regulated entities to conduct comprehensive due diligence on clients and investors before establish the business relationship with the customer.

The Guideline emphasizing the critical need to combat money laundering and terrorist financing activities effectively. Moreover, the guidelines stipulate under sub clause ii of clause 5.1 of Chapter V read with clause 5.6 that enhanced due diligence must be diligently carried out for clients deemed to pose a high risk in the manner given below

- a) Where the risks of ML/TF are high, a Regulated Entity shall conduct enhanced CDD measures, consistent with the risks identified. The enhanced CDD measures are as follows:
- i) Obtaining additional information on the customer (which may be occupation, volume of assets, information available through public databases, internet, etc.) and updating more regularly the identification data of customer and beneficial owner.
 - ii) Obtaining information and taking additional steps to examine the ownership and financial position, including source of wealth and source of funds of the customer or, if applicable, of the Beneficial Owner.
 - iii) Obtaining information and taking additional steps to record the purpose behind conducting the specified transaction and the intended nature of the relationship between the transaction parties.
 - iv) Obtaining the approval of Senior Management to commence or continue the business relationship
 - v) Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination; and
 - vi) Requiring the first payment to be carried out through an account in the customer's name with bank subject to similar CDD standards
- b) Where applicable, it is required that first payment made by a customer in order to open an account with a Regulated Entity shall be carried out through a bank account in the customer's name with:
- i) a Bank;
 - ii) a regulated financial institution whose entire operations are subject to regulation and supervision, including AML/CFT regulation and supervision, in a jurisdiction where its regulations on AML/CFT are equivalent to the standards set out in the FATF recommendations; or
 - iii) a subsidiary of a regulated financial institution referred to in (ii), if the law that applies to the Parent entity ensures that the subsidiary also observes the same AML/CFT standards as its Parent entity

Furthermore, IFSCA has also provided the Guidance Note which helps to identify the scenario and circumstances for applying enhance due diligence measures as mention

Guidance Note: -

- The Enhanced CDD measures will apply depending upon the risk profile of the customer and the extent of its applicability to a customer shall be decided on case-to-case basis.
- Circumstances where a customer presents or may present a high probability of ML/TF risk may include, but are not limited to the following:
 - I. where a customer or any beneficial owner of the customer is from or in a country or jurisdiction in relation to which the FATF has called for countermeasures; and
 - II. where a customer or any beneficial owner of the customer is from or in a country or jurisdiction known to have inadequate AML/CFT measures, as determined by the Regulated Entity for itself or notified to Regulated Entity generally by the Authority or other relevant domestic authorities in India or other foreign regulatory authorities.
- For establishing an account-based relationship with high-risk customers, the approval may be given by Senior Management or committee of senior managers or an individual member who has been authorised by the Senior Management in this behalf.
- In cases where a customer uses complex legal structures and/or trusts, private investment vehicle, the Regulated Entity shall satisfy itself that it is used for a legitimate and genuine purpose.
- The Regulated Entity shall take reasonable measures to examine the source of wealth and source of funds. That is, where the funds for a particular service or transaction will come from (e.g., a specific bank account held with a specific financial institution) and whether that funding is consistent with the source of wealth of the customer or, if applicable, of the Beneficial Owner.
- Source of funds refers to the origin of the particular funds or other assets which are the subject of the establishment of business relations. In order to ensure that the funds are not proceeds of crime, the Regulated Entity should not limit its source of funds inquiry to identifying the other financial institution from which the funds have been transferred, but more importantly, the activity that generated the funds.
- The information obtained should be substantive and facilitate the establishment of the provenance of the funds or reason for the funds having been acquired. Examples of appropriate and reasonable means of establishing source of funds are such as proof of dividend. payments connected to a shareholding, bank statements, salary payments or bonus certificates, sale proceeds, loan documentation and proof of a transaction which gave rise to the payment into the account.

- A customer should be able to demonstrate and document how the relevant funds are connected to a particular event which gave rise to the payment into the account or to the source of the funds for a transaction.

3. Step involved in Enhance Due Diligence

- Risk Assessment:** When conducting a risk assessment as part of the Enhanced Due Diligence (EDD) process, it is essential to carefully evaluate and identify the potential risks associated with a customer or transaction. The first step involves identifying key risk factors such as the customer's geographic location, nature of business activities, source of funds, and the presence of politically exposed persons (PEPs). Subsequently, specific risk indicators must be assessed, including complex ownership structures, transactions in high-risk jurisdictions, and patterns of unusual or suspicious activity. By assigning risk ratings based on these factors, prioritizing resources becomes more streamlined, and the necessary level of due diligence can be determined. It is crucial to consider any mitigating factors that may reduce risk, such as a strong compliance record or transparent business operations. Documentation of the risk assessment findings is essential for regulatory compliance and demonstrating due diligence efforts. Regular reviews and updates to the risk assessment ensure that EDD procedures remain effective and aligned with any changes in the customer's profile or business activities. Through a comprehensive risk assessment process, organizations can better understand and manage the risks associated with their customers and transactions.
- Gather Customer Information:** It involves collecting customer information which may include verifying the customer's identity through official documents, conducting background checks, assessing the customer's risk profile, and monitoring transactions for suspicious activities. Businesses may also need to obtain additional information such as ultimate beneficial ownership, purpose of the business relationship, and anticipated transaction patterns conducting a more thorough investigation into a customer's background, source of funds, business activities, and risk profile, Financial activities,
- Screening and Verifying:** Screening is the essential part and the purpose of screening is to ensure that Customers/Investors do not engage with individuals or entities that are involved in illegal activities, sanctioned by authorities, or pose a potential risk to the organization.

Screening typically involves comparing customer information, such as names, addresses, identification numbers, and other relevant data, against various databases

and watchlists maintained by government agencies, international organizations, and industry bodies. These databases may include lists of sanctioned individuals, politically exposed persons (PEPs), terrorist organizations, and entities involved in illicit activities.

- iv. **Ongoing Monitoring:** Ongoing monitoring, in the context of customer information, refers to the continuous process of observing, reviewing, and analyzing customer activities, transactions, and behavior over time. Ongoing monitoring is a critical component of risk management, compliance, and regulatory requirements for Regulated Entity, especially in sectors such as finance, banking, and other regulated industries.

The purpose of ongoing monitoring is to detect any changes in customer behaviour, transaction patterns, or risk profiles that may indicate potential risks, such as money laundering, terrorism financing, fraud, or other illicit activities. By monitoring customer activities on an ongoing basis, businesses can identify suspicious activities, unusual transactions, or red flags that may require further investigation.

Ongoing monitoring involves the regular review of customer accounts, transactions, alerts generated by monitoring systems, and any relevant information that may impact the risk profile of a customer.

Through ongoing monitoring, businesses can enhance their risk assessment processes, comply with regulatory requirements, and prevent financial crimes. It allows Regulated Entity to proactively identify and address potential risks, conduct timely investigations, and take appropriate actions to mitigate risks and protect their reputation.

- v. **Documentation:** Documentation is essential for audit purposes, regulatory examinations, due diligence processes, and investigations into potential compliance issues or disputes. It provides a trail of evidence to support regulated entities decisions, verify compliance with regulations, and resolve any discrepancies or issues that may arise during customer relationships.

4. **Detailed Procedure for Enhanced Due Diligence**

Step 1: Employ a risk-based approach

The FATF requires that all countries and businesses operate using a risk-based approach to AML precautions. This applies to every level of AML compliance, including EDD. The EDD process starts with the verification of customers and determination of the level of risk, which may lead to further investigation. According to FATF

recommendations, a risk-based approach allows FATF member countries to adopt a more flexible set of measures to target their resources more effectively and apply preventative measures relevant to the nature of risks.

Step 2: Obtain additional identifying information

A company should collect additional information from high-risk customers. This information can be obtained from a questionnaire specifically designed for such customers, as well as from certain documents which we've listed below:

For Businesses and other legal entities:

- a) Official corporate records from the company's management
- b) Registration documents from the local Registrar of Companies
- c) Articles of incorporation, partnership agreements, and business certificates
- d) Names and locations of customers and suppliers
- e) Banking information and relationships with other financial institutions
- f) Identity of board members and beneficiaries
- g) Director Reports and Financial Statement

For Politically Exposed Persons (PEP):

- a) Title and details on the position the PEP holds or held;
- b) If the PEP is a close associate or family member, their identity, title, role, and level of proximity to public office should be established.

Step 3: Analyse the source of funds and ultimate beneficial ownership (UBO)

Source of Fund mean Funds indicate the amount involved in a particular transaction which provide an idea of how the transaction is funded

FME require to EDD requires by verifying the legitimacy of the source of funds of:

- Individuals
- Body Corporate /Trust/Partnership Firm/any other unregistered entity
- Beneficial owners

By obtaining earnings, source of funds of the customer as mentioned below.

- Salary
- Shareholding

- Bank Statement (For Last 1 Year)
- Bonus Certificate
- Inheritances
- Sales Proceed
- Loan Documentation

Refusal to provide such documents or their absence may indicate that there are grounds for suspicion of money laundering.

Step 4: Analyse the source of wealth and ultimate beneficial ownership (UBO)

The Source of Wealth (SoW) is the origin of the accumulated monetary assets of an individual. It involves an analysis of the economic activities undertaken by a person to accumulate the entire body of wealth. In accounting terms, it's the overall net worth (assets minus liabilities) of a person.

FME require to EDD requires by verifying the legitimacy of the source of Wealth of:

- Individuals
- Body Corporate /Trust/Partnership Firm/any other unregistered entity
- Beneficial owners

By obtaining earnings, source of wealth of the customer as mentioned below in addition to source of Fund.

- Asset Title Documents
- Trust Deed
- Audited Financial Statement if not available (Financial statement with declaration of signing authority confirming the authenticity of Financial statement)
- Employment Contract with CTC
- Income Tax return
- Bank Statement (For last 1 Year)
- Gift Deed
- Will (inheritance)

Refusal to provide such documents or their absence may indicate that there are grounds for suspicion of money laundering.

AML India

Understand the difference between Source of Funds and Source of Wealth

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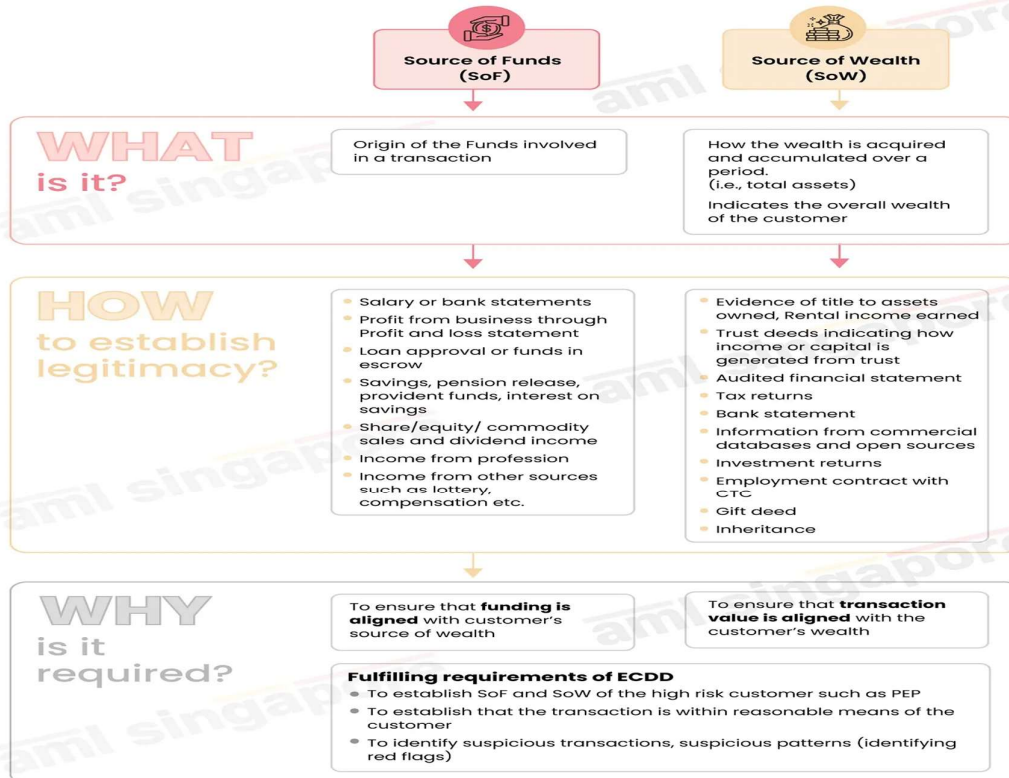


IFSCA (AML/CFT & KYC) Guidelines, 2022 mandates the regulated entities to apply **Enhanced Customer Due Diligence** while dealing with High-Risk Customers. One of the EDD measures is to understand the **customer's financial position**, i.e., source of funds and wealth.

DIFFERENTIATING PARAMETER	SOURCE OF FUNDS	SOURCE OF WEALTH
WHAT is it?	Origin of the funds which are involved in the business relationship	Origin of the customer's entire wealth (i.e., total assets)
WHY is it required?	<ul style="list-style-type: none"> To identify where the funds for a particular transaction are coming from Whether that funding is aligned with the customer's source of wealth 	<ul style="list-style-type: none"> To understand the size of the customer's wealth Whether transaction value is aligned with the customer's wealth
HOW to establish legitimacy?	<ul style="list-style-type: none"> Bank statements Salary slips Bonus certificates Proceeds from the sale of assets Loan documentation, etc. 	<ul style="list-style-type: none"> Asset title document Trust deed Audited Financial Statement Employment contract with CTC Income Tax Return Bank statements Gift deed Will (Inheritance), etc.

AML Singapore

Source of Funds and Source of Wealth: Requirements and Differences



Step 5: Implement transaction monitoring

FME shall assess all available customer transaction history and access transaction details such as

- Background of the transaction
- Purpose of the transaction
- Nature of the transaction
- Duration of the transaction
- Parties involved

Step 6: Client adverse media and negative checking

Press articles, reports, and other media (including social networks) may shed light on the reputation of your customer and help build a full customer profile. Reputational/adverse media research should be undertaken as part of EDD and regularly updated.

Step 6: Conduct an on-site visit

The absence of a real address or the presence of an address non-corresponding with official documents could be considered a high-risk indicator. All legal entities, such as banks and companies, have a physical address that should be verified in advance

5. **Document to be sought from Investor for Enhance Due Diligence (Detailed Checklist)**

IFSCA has issued a detailed guideline on AML and CFT called “International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, which puts onus on the Regulated Entity to carried out the Enhance due diligence if the investor or Customer falling into High Risk Profile, however there is no specific checklist has provide by the Regulator, hence for detail guidance on the checklist we have referred the SEBI Master Circular on Know Your Client (KYC) norms for the securities market till the IFSCA come out with specified checklist.

<u>For Body Corporate</u>	
1	Certificate of incorporation/ Registration Documents
2	Memorandum and Articles of Association/Chartered Documents/Constitutional Documents
3	Board Resolution
4	Power of Attorney granted to its managers, officers or employees, as the case may be, to transact on its behalf
5	Authorised signatories list with specimen signatures
6	Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year).
7	Latest share holding pattern including list of all those holding control, either directly or indirectly, in the company
8	POI, POA, of whole-time directors/two directors in charge of day to day operations/ Authorised Person
9	POI, POA, of individual promoters holding control - either directly or indirectly
<u>Trust:</u>	
1	Certificate of registration
2	Copy of Trust deed
3	Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year).
4	List of trustees certified by managing trustees/CA.
5	POI, POA, of Trustees.
<u>For Partnership firm:</u>	
1	Certificate of registration
2	Copy of partnership deed.

3	Copy of the balance sheet for the last financial year (initially for the last two financial years and subsequently for every last financial year)
4	Authorised signatories list with specimen signatures
5	POI, POA, of Partners

6. **Caution**

Potential Red Flags in Customer Due Diligence and Interactions with Customers

- The customer provides the firm with unusual or suspicious identification documents that cannot be readily verified or are inconsistent with other statements or documents that the customer has provided. Or, the customer provides information that is inconsistent with other available information about the customer. This indicator may apply to account openings and to interaction subsequent to account opening.
- The customer is reluctant or refuses to provide the firm with complete customer due diligence information as required by the firm’s procedures, which may include information regarding the nature and purpose of the customer’s business, prior financial relationships, anticipated account activity, business location and, if applicable, the entity’s officers and directors.
- The customer refuses to identify a legitimate source of funds or information is false, misleading or substantially incorrect.
- The customer is domiciled in, doing business in or regularly transacting with counterparties in a jurisdiction that is known as a bank secrecy haven, tax shelter, high-risk geographic location (e.g., known as a narcotics producing jurisdiction, known to have ineffective AML/Combating the Financing of Terrorism systems) or conflict zone, including those with an established threat of terrorism.
- The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
- The customer has no discernable reason for using the firm’s service or the firm’s location (e.g., the customer lacks roots to the local community or has gone out of his or her way to use the firm).
- The customer has been rejected or has had its relationship terminated as a customer by other financial services firms.

- The customer's legal or mailing address is associated with multiple other accounts or businesses that do not appear related.
- The customer appears to be acting as an agent for an undisclosed principal, but is reluctant to provide information.
- The customer is a trust, shell company or private investment company that is reluctant to provide information on controlling parties and underlying beneficiaries.
- The customer is publicly known or known to the firm to have criminal, civil or regulatory proceedings against him or her for crime, corruption or misuse of public funds, or is known to associate with such persons. Sources for this information could include news items, the Internet or commercial database searches.
- The customer's background is questionable or differs from expectations based on business activities.
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, with no apparent business or other purpose.
- An account is opened by a politically exposed person (PEP), particularly in conjunction with one or more additional risk factors, such as the account being opened by a shell company¹⁰ beneficially owned or controlled by the PEP, the PEP is from a country which has been identified by FATF as having strategic AML regime deficiencies, or the PEP is from a country known to have a high level of corruption.
- An account is opened by a non-profit organization that provides services in geographic locations known to be at higher risk for being an active terrorist threat
- An account is opened in the name of a legal entity that is involved in the activities of an association, organization or foundation whose aims are related to the claims or demands of a known terrorist entity.
- An account is opened for a purported stock loan company, which may hold the restricted securities of corporate insiders who have pledged the securities as collateral for, and then defaulted on, purported loans, after which the securities are sold on an unregistered basis.

- An account is opened in the name of a foreign financial institution, such as an offshore bank or broker-dealer, that sells shares of stock on an unregistered basis on behalf of customers.

- An account is opened for a foreign financial institution that is affiliated with a U.S. broker-dealer, bypassing its U.S. affiliate, for no apparent business purpose. An apparent business purpose could include access to products or services the U.S. affiliate does not provide.