

ANNEXURE - P5

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Subject: Documents following up from our discussion on the 16th

Date: Fri, 20 Nov 2015 16:55:25 +0530

From: Pramod <pramod@usecrypto.me>

To: tuliroy@rbi.org.in

CC: madhusmitadutta@rbi.org.in

Dear Madam,

I've created a concise document answering the questions you had raised regarding the exchanges, trade volumes, price minima/maxima and the userbase.

In addition, I've also attached a document that describes our company's operational processes - some slides from which I'd shared during the meeting.

I hope you find these two useful. Please feel free to reach out to me in case you need any clarifications or further information.

Once again, thank you for meeting with us.

Regards,

PramodEmjay

Founder, CryptoMe Payment Technologies

Bitcoin and the Blockchain

Situation Report

1 Exchanges

India has 3 exchanges with high activity – Unocoin, BTCXIndia and Coinsecure. All 3 are notable for their focus on KYC implementation at user signup.

1.1 Unocoinⁱ

Based out of Bangalore; owned by CoinMonk Ventures.

Was one of the earliest exchanges, and was shut down briefly in 2013 when legality became unclear.ⁱⁱ

Strong promoter of using Bitcoin (BTC) as a currency, and is pushing merchants to accept crypto payments.

Sources indicate that they were the first to experience a major liquidity crisis among the Indian exchanges.

1.2 BTCXIndiaⁱⁱⁱ

Based out of Hyderabad. Was an early exchange which also gained some popularity.

Emphasised regulatory compliance but was shut down with the loss of its banking partner. Appears to be operational again.^{iv}

1.3 Coinsecure^v

Based out of Mumbai/New Delhi; owned by Secure Bitcoin Traders Pvt. Ltd.

Newer exchange, but one of the fastest growing.

2 Trade volumes

Volumes are extremely price sensitive. **November 2015** saw the highest volumes in the last 12 months, with trades reaching \$40,000,000.^{vi}

As of 18th Nov 2015, price per Bitcoin is around \$330 and the total market capitalization is around \$5,000,000,000. Note that Bitcoin accounts for 90% of all traded cryptocurrency.^{vii}

3 Usage, activity and volatility

Bitcoin has an estimated 3 to 5 million users globally. Of these, an estimated 200k to 300k are active users (traders, price trackers, active wallets). This number is expected to climb to 4.7M active users by 2019.^{xiii}

Transaction activity of all cryptocurrency is close to \$30B annually (2015). This is almost half of the 2014 number and is a result of increased regulation and standardization of trading.^{ix}

Price volatility is still present despite increased regulation. November 2013 saw the lifetime peak price of \$1250 per BTC, which fell after a massive crash and eventual bankruptcy at the Tokyo-based Mt. Gox Bitcoin exchange. Through 2015, price has varied between a floor of around \$180 and ceiling of around \$400. As of this writing, price per BTC is \$333 on international markets and around Rs.20,000 on Indian markets.

4 Security and legality

It is difficult to explain the security features of BTC without going into an elaboration of cryptography itself. While anonymity is maintained for purely-crypto activities, any transaction that interfaces with fiat currency (INR or USD) can easily be traced. For this reason, robust KYC entry points can effectively safeguard governmental interests. Further, since every single transaction is traceable on the blockchain, this system is even better for threat monitoring than traditional banking protocols.

Internationally, regulation has not achieved uniformity and is led by the USA and the EU.

4.1 USA

Two major, competing licenses have been seen within the country – the New York-based Bitlicense^x and the California-based AB-1236^{xi}. However, both have been seen as anti-innovation and governmental interference in privacy has been cited as a concern.^{xii}

Federally, the Financial Crimes Enforcement Network (FinCEN), a bureau of the Department of the Treasury released a report freeing cryptocurrency users from legal obligations required by Money Services Businesses (MSBs).^{xiii}

"A user of virtual currency is not an MSB under FinCEN's regulations and therefore is not subject to MSB registration, reporting, and recordkeeping regulations."

However, people 'mining' cryptocurrency are required to register with the FinCEN. Thus, the enforcement begins at the interfacing of fiat and virtual currency.

In summary, FinCEN's decision would require bitcoin exchanges where bitcoins are traded for traditional currencies to disclose large transactions and suspicious activity, comply with money laundering regulations, and collect information about their customers as traditional financial institutions are required to do.



4.2 EU

The European Central Bank concluded that “growth of virtual currencies will continue”^{xxiv} and the European Banking Federation has repeated that regulation is a priority.^{xxv}

The most progressive legislation has also come from the EU, and is seen as the thinking required to foster innovation in this nascent industry.^{xxvi}

Most notably, Bitcoin and other such cryptocurrencies are now tax-free in Europe.^{xxvii}

5 The future of the Blockchain

Blockchain technology, which lies at the heart of Bitcoin and other cryptocurrencies has many uses beyond the implementation of currency protocols. Any of the below could trivially be combined with cryptocurrency to revolutionise entire markets.

5.1 Ledgers

Publicly verifiable hyperledgers can be used for all forms of registration running from land registries^{xxviii} to birth registries^{xxix}.

5.2 Distributed computation

Services such as Ethereum^{xxx} offer specific computation algorithms that are fraud-proof and tamper-proof. Microsoft recently implemented these on their virtual computation services.

5.3 Hypermedia protocols

Services like IPFS^{xxxi} are the successors to HTML and could create completely new markets that are managed by vendors without the need for external authentication.

5.4 Value transmission systems and smart contracts

Automatically implemented contracts with provisions for financial settlements such as Ripple^{xxxi} have the potential to replace SWIFT. This is barely surprising since banking giants from Barclays to Bank of America to Citibank to Santander have filed patents involving Blockchain technology. Of interest is an earlier call by the SWIFT institute to test services on the Blockchain.^{xxxii}

6 More about Bitcoin

It is difficult to envision all the possibilities of this new technology without understanding it. Here are a few resources to help unravel Bitcoin and the Blockchain:

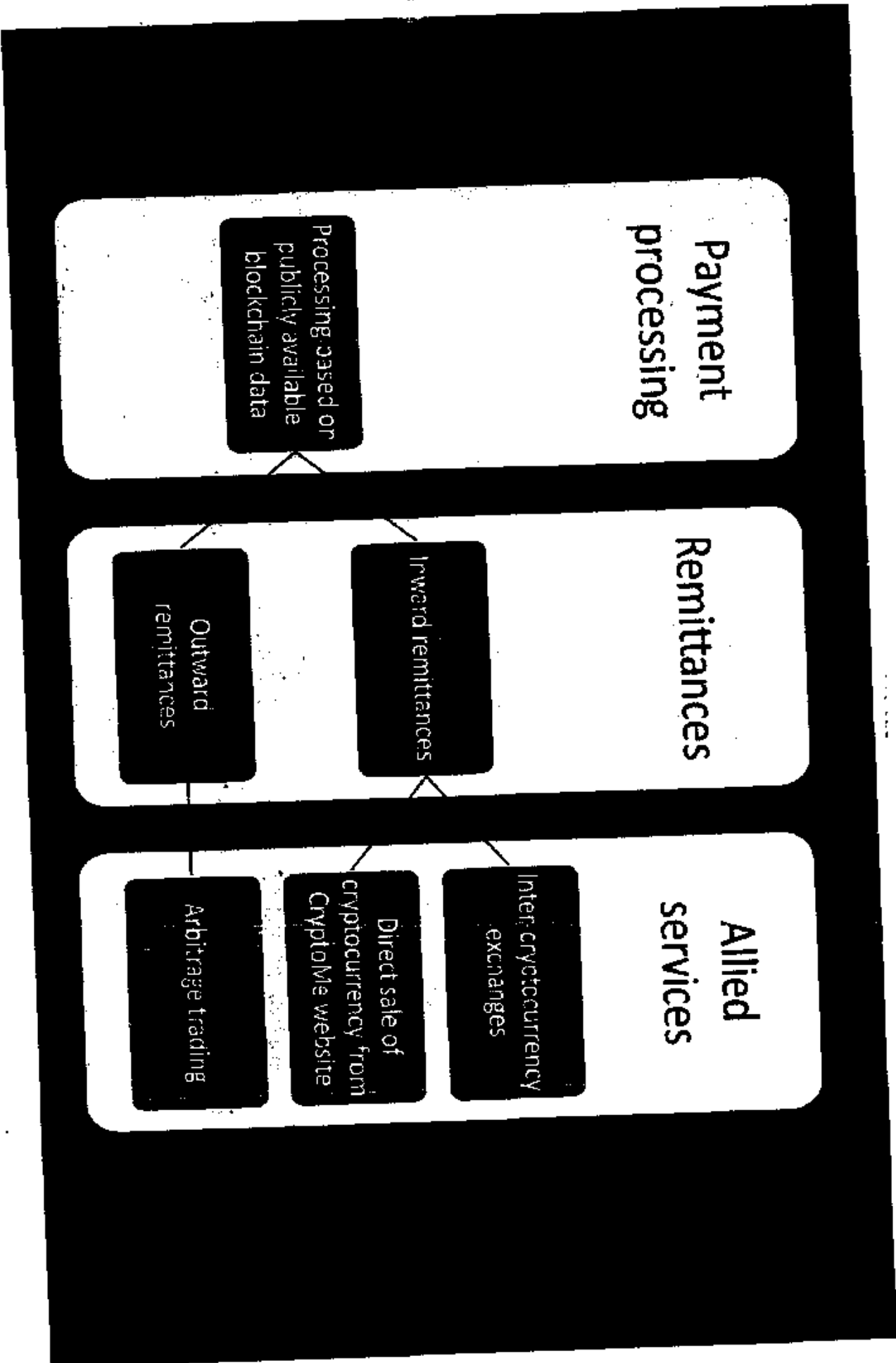
Khan Academy - <https://www.khanacademy.org/economics-finance-domain/core-finance/money-and-banking/bitcoin/v/bitcoin-transaction-block-chains>

Bitcoin.org's How Does Bitcoin Work? - <https://bitcoin.org/en/how-it-works>

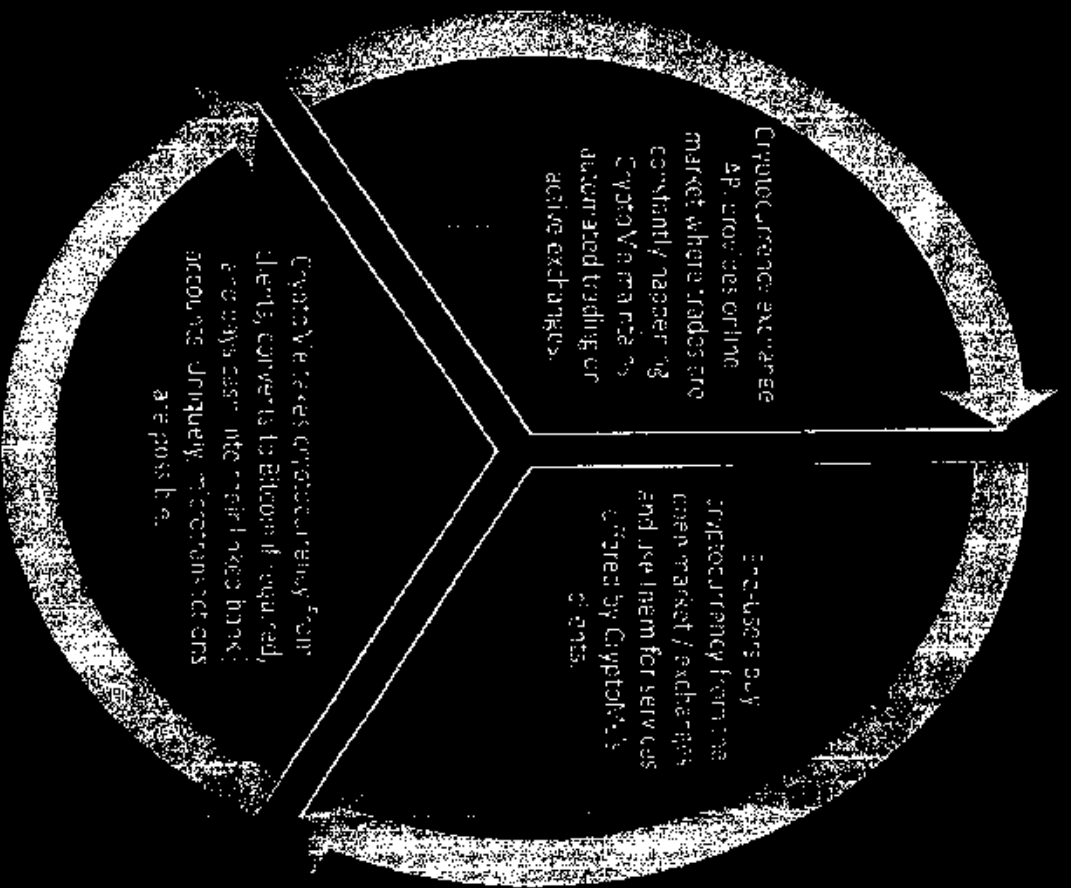
BBC feature on the Blockchain - <https://www.youtube.com/watch?v=2ky3mOUoh74>

OPERATIONAL PROCESS FLOW AND LEGAL OPINIONS

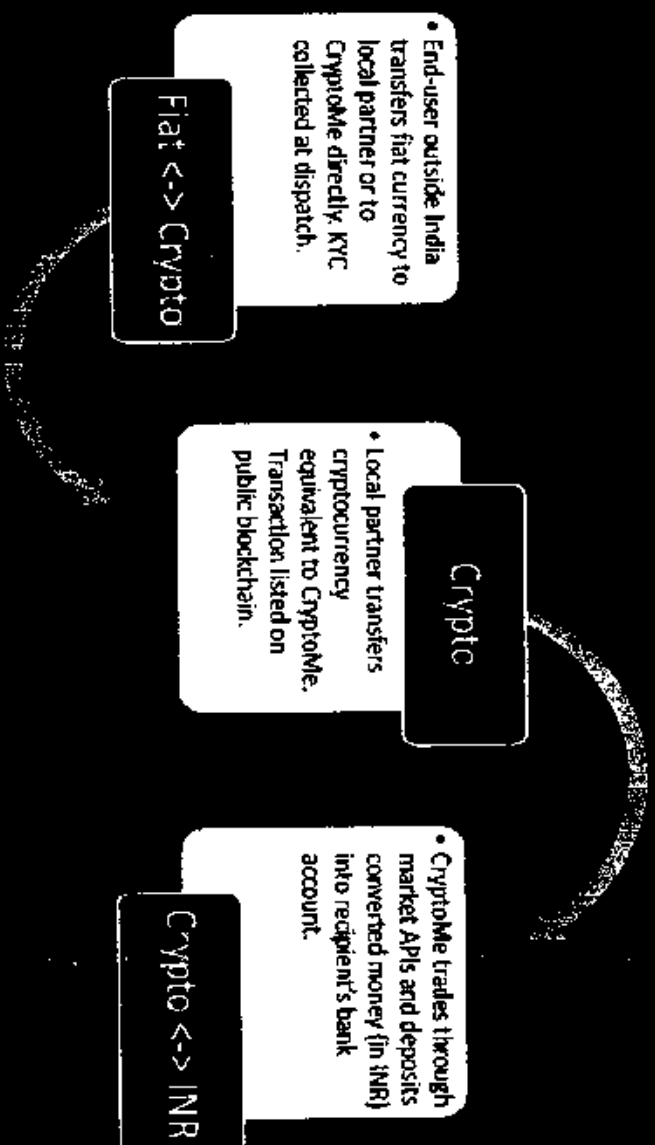
CRYPTOME PAYMENT TECHNOLOGIES



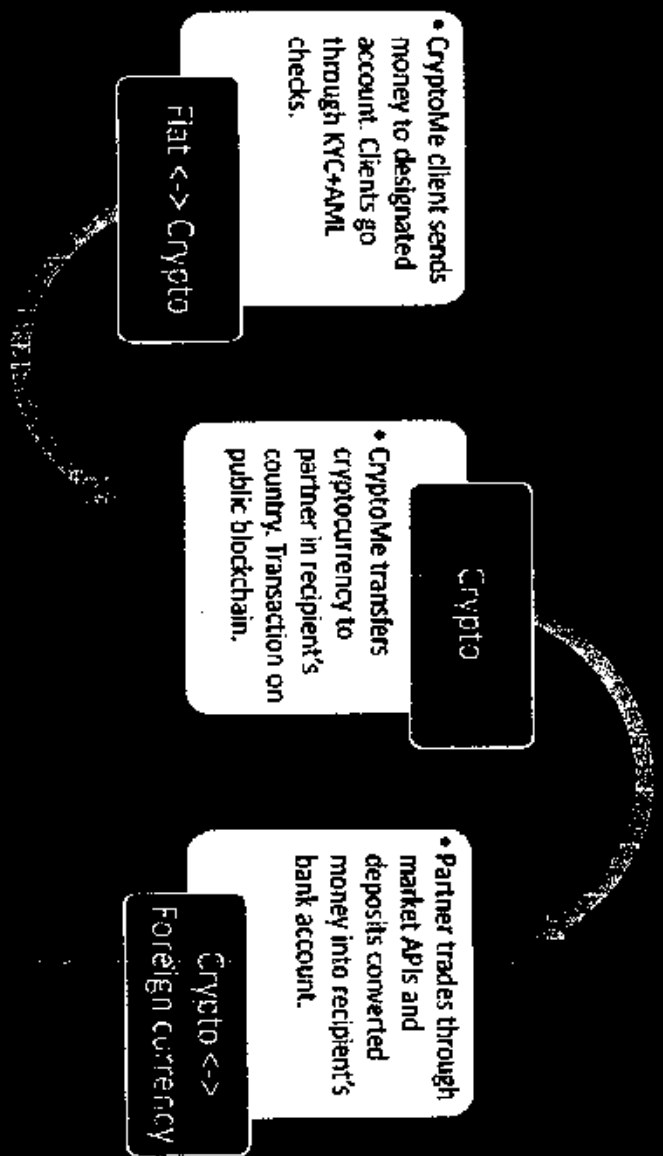
PAYMENT PROCESSING



COUNTRY EVEN WITHOUT LOCAL PARTNER)



LOCAL PARTNER – GERMANY, SOUTH AFRICA, CHINA, USA)



ALLIED SERVICES

Inter-cryptocurrency exchange:

CryptoMe can convert between 20 of the most popular (by market cap) cryptocurrencies. This is necessary since active Indian cryptocurrency exchanges deal only in Bitcoin. Our clients, however, can use any major cryptocurrency (such as Litecoin or Dogecoin.)

Conversion is carried out through the ShapeShift.io API and can be automated per clients' request.

Direct sale of cryptocurrency:

For cryptocurrencies apart from Bitcoin, there is no credible point of sale in India. For this purpose, CryptoMe is considering direct sale of these alternative cryptocurrencies or "allcoins." Purchase of these cryptocurrencies is made on viable international exchanges (such as Kraken, Coinsetter and Coinbase) and private markets (such as cogenmarket and Litemarket) according to the market rate.

Arbitrage trading:

Since the Indian cryptocurrency market is volatile and low-frequency in comparison to international exchanges, arbitrage trading services will be maintained with international partners to hedge against wild price fluctuations. Trading might be buy or sell depending on market movement.

Arbitrage trading is NOT automated and is done manually with international partners.

LEGAL OPINIONS RECEIVED

All lawyers consulted so far agree that any trade within India will be fully legal. This matches the opinion public stated by Nishith Desai, who has served as the legal counsel for multiple Bitcoin corporations in the country. The key points of concern have been remittances and arbitrage trading, and differing opinions have been received.

1) Initial discussions with two independent lawyers in Delhi indicated that cross border trading would not be a problem if an appropriate classification could be found. The classification, however, was problematic – would cryptocurrency be considered a foreign currency? Would that mean it would have to be traded under a moneychanger's license? Or, would it be considered a digital commodity? And if so, what rules would apply for sale?

2) Discussions with a consultant and lawyer from Dubai led to the suggestion that the activities could be carried out presently and would need to be brought under compliance when appropriate rules were enacted. However, to remain on the legally clear side, it was suggested that initiating RBI would be the best course of action.

3) A group of law school students carrying out a research project for CryptoMe felt that all sales to non-residents would be in contravention of FEMA norms, thereby making arbitrage trading problematic. However, they believe that inward remittances are not a point of concern.

REGISTRATION AND INTERNATIONAL REGULATIONS

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Since the cryptocurrency blockchain is inherently international and borderless, its individual implementation in countries has been a cause for concern at both CryptoMe and its international partners. CryptoMe is registered in Delhi and its partners come from South Africa (registered as a private enterprise), Germany (registered as a technology company), China (registered as a non-profit foundation) and the USA (registered as an LLC).

Internationally, the law is ever less clear across countries.

New York and California have two excellent, contrasting examples of cryptocurrency legislation. New York's BitLicense has been seen as restrictive and favouring big companies, while California's interim licenses have been in favour of startups. Some have suggested that India would adopt the BitLicense model or treat cryptocurrency as foreign currency.

The EU considers cryptocurrencies as digital goods (not currency) and does not impose any tax on their trades in exchanges. This is still in consideration and could change.

China and South Africa are similar to India insofar as there is little clarity on how to treat cryptocurrencies. However, the South African government is much more in favour of businesses moving to cashless transactions – perhaps an opinion shared by India.

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February 01, 2017

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ANNEXURE - P-6

RBI cautions users of Virtual Currencies

The Reserve Bank of India had cautioned the users, holders and traders of Virtual Currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to, vide its press release dated December 24, 2013.

The Reserve Bank of India advises that it has not given any licence / authorisation to any entity / company to operate such schemes or deal with Bitcoin or any virtual currency. As such, any user, holder, investor, trader, etc. dealing with Virtual Currencies will be doing so at their own risk.

Jose J. Kattoor

Press Release: 2016-17/2054 Chief General Manager

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12-April-2017

ANNEXURE - P7

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Press Information Bureau

Government of India

Ministry of Finance

Government constitutes an Inter- Disciplinary Committee chaired by Special Secretary (Economic Affairs) to examine the existing framework with regard to Virtual Currencies.

The Committee to submit its report within three months

The circulation of Virtual Currencies which are also known as Digital/Crypto Currencies has been a cause of concern. This has been expressed in various fora from time to time. Reserve Bank of India had also cautioned the users, holders and traders of Virtual currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to vide its press releases dated 24th December, 2013 and February 1, 2017.

In order to examine the existing framework, Department of Economic Affairs, Ministry of Finance has constituted an Inter- Disciplinary Committee chaired by Special Secretary (Economic Affairs) and representatives from Department of Economic Affairs, Department of Financial Services, Department of Revenue (CBDT), Ministry of Home Affairs, Ministry of Electronics and Information Technology, Reserve Bank of India, NITI Aayog and State Bank of India. The Committee will (i) take stock of the present status of Virtual Currencies both in India and globally; (ii) examine the existing global regulatory and legal structures governing Virtual Currencies; (iii) suggest measures for dealing with such Virtual Currencies including issues relating to consumer protection, money laundering , etc; and (iv) examine any other matter related to Virtual Currencies which may be relevant.

The Committee has been tasked to submit its report within three months.

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Comments/Suggestions Invited for the Existing Virtual Currencies Framework

The circulation of Virtual Currencies which are also known as Digital/Crypto Currencies has been a cause of concern. This has been expressed in various fora from time to time. Reserve Bank of India had also cautioned the user's, holders and traders of Virtual currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to vide its press releases dated 24th December, 2013 and 1st February, 2017.

In order to examine the existing framework, Department of Economic Affairs, Ministry of Finance has constituted an Inter- Disciplinary Committee chaired by Special Secretary (Economic Affairs) and representatives from Department of Economic Affairs, Department of Financial Services, Department of Revenue (CBDT), Ministry of Home Affairs, Ministry of Electronics and Information Technology, Reserve Bank of India, NITI Aayog and State Bank of India on 15th March, 2017.

The Committee will (i) take stock of the present status of Virtual Currencies both in India and globally; (ii) examine the existing global regulatory and legal structures governing Virtual Currencies; (iii) suggest measures for dealing with such Virtual Currencies including issues relating to consumer protection, money laundering, etc; and (iv) examine any other matter related to Virtual Currencies which may be relevant.

Comments/suggestions from the members of public are requested on the following questions by 31st May, 2017 on the website: MyGov.in.

a) Whether Virtual Currencies (VCs) should be banned, regulated or observed?

b) In case VCs are suggested to be regulated:

- i). What measures should be taken to ensure consumer protection?
- ii). What measures should be taken to promote orderly development of VCs.
- iii). Which appropriate institution(s) should monitor/ regulate the VCs?

c). In case VCs are not suggested to be regulated:

- i). What should be the effective self-regulatory mechanism?
- ii). What measures should be adopted to ensure consumer protection in this scenario?

It is requested that the comments may be supplemented by rationale and brief.

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Panel on crypto-currency submits report to Jaitley- Business Line

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To suggest measures to deal with digital currencies

NEW DELHI, AUGUST 7

India may soon take a call on how to deal with virtual currencies including bitcoins on the regulatory front with a government-appointed panel submitting its report to Finance Minister Arun Jaitley here recently.

"The inter-disciplinary committee chaired by Special Secretary in Department of Economic Affairs has submitted its report," an official said.

The contents of the report have not yet been made public.

It may be recalled that the government had in April this year constituted an Inter-Disciplinary Committee comprising nine members including representatives of RBI, SBI, NITI Aayog and Department of Financial Services.

This panel was tasked to examine the existing framework on digital/crypto currencies both in India and globally and come out with measures for dealing with such virtual currencies on issues relating to consumer protection, money laundering etc. The Centre had given three months time to the panel for submitting this report.

Already, there is an ongoing debate within the country as to whether crypto-currencies including bitcoins should be legalised or not.

Crypto-currency start-ups such as ZebPay are pitching for a model where the industry association Digital Assets and Blockchain Foundation of India (DABFI) is allowed to function as a self regulatory organisation.

ZebPay is one of the founder members of DABFI.

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"We are for some form of a task force or a controlling body that will be monitoring the activities of exchanges. We want ultimately exchanges to get licences just as banks are granted licences", Saurabh Agrawal, Co-Founder & CEO, ZebPay, told BusinessLine.

Agrawal also said that recognising crypto-currencies as a separate new asset class was crucial.

Some of the critical issues that need to be addressed in India is the accounting and taxation treatment of the virtual currencies.

Japan had recently passed a law to recognise Bitcoin as a legal method of payment. Bitcoin is a new concept, but is in the process of being understood and adopted by a growing number of consumers, businesses and investors around the world.

Jaitley had recently informed Parliament that there has been a "notable growth" in the bitcoin market in India over the last few years.

There is evidence that crypto-currency/bitcoins are being used in the country, he told the Lok Sabha in a written reply.

Published on August 07, 2017

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1. Need for a Policy

Bitfair Technologies Pvt. Ltd. ("Coindelta") is a company duly incorporated under the laws of India and runs a completely transparent and legal virtual currencies trading platform. Coindelta intends to encourage the use of virtual currencies among the community and make it easier to trade and exchange. To that effect Coindelta realizes that there may be some stigma attached to virtual currencies due to the ease with which individuals may be able to conduct and complete virtual currencies transactions anonymously. In an effort to remove this stigma, Coindelta intends to follow this entirely voluntary Know Your Customer or Anti Fraud Policy, in an effort to ensure that Coindelta's services are not used for any illegal activities.

2. Legal Background

Reserve Bank of India (RBI), the regulator of banks in India issued detailed guidelines to Banks on Know Your Customer (KYC) and Anti Money Laundering (AML) in November 2004. The Indian Parliament passed the Prevention of Money Laundering Act (PMLA) in 2002 to implement the Political Declaration adopted by the special session of the United Nations General Assembly held during June 8-10, 1998 and the Global Programme of Action annexed to Resolution S-17/2 adopted by the United Nations General Assembly on February 23, 1990. The provisions of this Act are effective from July 1, 2005. The PMLA addresses a range of issues including the definition of and punishment for the offence of Money Laundering, attachment and confiscation of property tainted by Money Laundering and the obligations of banking companies, financial institutions and intermediaries in connection with Money Laundering issues. Under PMLA, the scope of Money Laundering covers certain offences under the Narcotics Drugs and Psychotropic Substances Act, 1985, the Indian Penal Code, 1860, the Arms Act, 1959, the Wild Life (Protection) Act, 1972, the Immoral Traffic (Prevention) Act, 1956 and the Prevention of Corruption Act, 1988.

3. No Legal Requirement

Although Coindelta is not required by the law to follow any Know Your Customer (KYC) policies or implement any Anti-Fraud mechanisms, however Coindelta believes in total transparency and adherence to the law and discourages any of illegal activities while using

Coindelta's services. In order to discourage and prevent any person from indulging in illegal activities using its services, Coindelta has made the following KYC and Anti Fraud Policy purely as a measure of prudence and on an entirely voluntary basis.

4. Due Diligence Policy

In order to ensure that Coindelta's services are not utilized by unwanted and illegal elements to further their illegal motives, Coindelta intends to follow a wholistic Due Diligence Policy which entails the following: Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted. Verifying the customer's identity using reliable, independent source document, data or information. Conducting on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile. The Due Diligence Policy involves the following three specific parameters: (i) Customer Acceptance Policy; (ii) Customer Identification Policy; and (iii) Highlighting Suspicious Transactions.

4.1 Customer Acceptance Policy

To achieve the object of total transparency and prevent illegal activities on our trading platforms, Coindelta has a clear policy of the kind of customers that it shall accept:

4.1.1 Coindelta shall only accept clients who are able to provide complete and true documents in line with the Customer Identification Policy set out below. Customers who do not supply the essential information required while filling in the form provided for registration shall not be accepted.

4.1.2 Coindelta shall use known publicly and freely available portals to check the authenticity of the identification documents provided by the customers and any persons whose documents appear to be unclear, insufficient, fraudulent or misleading shall not be allowed to register, and if registered, their registration shall be terminated.

4.1.3 Any customers whose registration information does not match the documents provided or appears to be fictitious may not be registered, and if registered, their registration shall be terminated.

4.1.4 No customers shall be allowed to register in fictitious names or if the customer appears to be an anti social element

or is found to have a record of fraud, cheating or forgery.

4.1.5 Coindelta shall not accept any customers who are below 18 years of age or who do not have the mental capacity to enter into legally binding contracts. However it shall not be the responsibility of Coindelta to determine the legal capacity of the customers and a warranty regarding their legal capacity shall be considered as satisfactory fulfillment of this condition.

4.1.6 Coindelta may ask for additional information at any point of time and if the customer refuses or is unable to provide such additional information then such customer shall not be registered, and if registered, their registration shall be terminated.

4.2 Customer Identification Policy

The objective of the Customer Identification Policy is to have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious / benami / anonymous in nature.

Proof of Identity: All customers shall have to provide scanned copies of atleast one of the documents below as proof of identity. Coindelta shall accept the following documents as proof of identity: For Individuals from India

Aadhar Card (Front and back both) Bank Statement, PAN Card

For NRIs

Passport or Aadhar Card (Front and back both) Bank Statement, PAN Card

Proof of Address: All customers shall have to provide scanned copies of atleast one of the documents below as proof of address. Coindelta shall accept the following documents as proof of address:

Aadhaar Card, Passport, E-Aadhaar card.

One to One Interaction: Coindelta has no mandatory policy of meeting the clients individually. However, Coindelta will be enabling customers to submit their documents in person during meet- ups and/or workshops held across the country which would allow for another level of direct KYC verification.

Authenticity Check: Coindelta may, and shall be under no obligation to, check that the documents provided by the customers as proof of identity and proof of address are authentic by cross checking them against freely available public databases. **General Conditions:** While providing documents to fulfill the User Identification Policy, customers should keep in mind the following:

Please upload clear scanned copies only. Scanned images should be in color and in high resolution (at least 300 dpi) however the file size should not be greater than 5 MB. Acceptable formats for the scanned copies are JPG, PNG or PDF.

All documents should be valid on the date of submission and should not have expired.

Documents should be provided in English or with certified translation in English

In case address proof submitted is not in the name of applicant then an additional document supporting the relationship with the addressee should be submitted by email such as marriage certificate, gazetted copy of name change or passport, visa etc. stating name of spouse/ guardian & their relationship.

Termination of Account: In case Coindelta finds or is suspicious that any customer is in violation of the conditions prescribed in this Know Your Customer and Anti Fraud Policy, Coindelta shall be fully entitled to terminate the account of such customer and prevent such customer from undertaking any further activities on any of Coindelta's platforms, existing or in future.

4.3 Highlighting Suspicious Transactions

4.3.1 Prohibited Activities: Coindelta has a very strict policy of not allowing its services to be knowingly used for any "Prohibited Activities". No customer shall use the services of Coindelta for any Prohibited Activities. Coindelta may conduct manual checks to ensure that not customer is indulging in Prohibited Activities; these checks may in future become automated. The prohibited Activities for the purposes of this policy shall include:

Fraud: any act or omission, including a misrepresentation that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation.

Corruption: offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the action of another party.

Collusion: arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.

Terrorist financing: provision or collection of funds, by any means, directly or indirectly, 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 any of the offences within the meaning of Articles 1 to 4 of Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism.

Criminal conduct: conduct, which constitutes an offence in any part of the world or would constitute an offence in any part of the world if it occurred there.

Money laundering: Money laundering is essentially the process of engaging in such financial transactions that are designed to conceal the true origin of criminally derived proceeds for the purpose of ensuring that such proceeds appear to have been received through legitimate sources/origins. It has been defined under the Prevention of Money Laundering Act, 2002 in the following words:

"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."

4.3.2 Actions: In case it comes to the knowledge of Coindelta or Coindelta becomes suspicious that any customer is engaging in any Prohibited Activities Coindelta reserves the right to terminate the account of the customer and prevent such customer from undertaking any further actions on any of Coindelta's services, existing or in future. Coindelta shall further be fully entitled, if it so chooses, to report such suspicious activities to the appropriate authorities.

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**PLEASE READ THESE TERMS AND CONDITIONS CAREFULLY
BEFORE USING THE ONLINE PLATFORMS**

These User terms and conditions (together with the documents referred to in it) ("Terms") are the terms on which you may make use of our website www.koinex.in and the associated mobile and software applications (either existing or available in the future) and our digital assets trading services ("Online Platforms"), whether as a guest or a registered user. Use of the Online Platform includes accessing, browsing, or registering to use the Online Platforms. Please read these Terms carefully before you start to use the Online Platforms. We recommend that you print a copy of this for future reference.

By using the Online Platforms, you confirm that you accept these Terms and that you agree to comply with them.

If you do not agree to these Terms, you must not use the Online Platforms. If you do not agree with any amendments made by to these Terms at any time in future, you must stop using the Online Platforms with immediate effect.

1. OTHER APPLICABLE TERMS

These Terms refer to, incorporate, and include the following additional terms, which also apply to your use of the Online Platforms:

Our Privacy Policy, which sets out the terms on which we process any personal data we collect from you, or that you provide to us. By using the Online Platforms, you consent to such processing and you warrant that all data provided by you is accurate.

Our Anti-Money Laundering Policy, which sets out the terms regarding identity verification of our Users and the procedures followed for early identification and reporting of prohibited/illegal activities which may be committed by using our services. When using the Online Platforms, you must comply with this AML Policy.

2. ABOUT US

The Online Platforms provide access to an online digital assets exchange that currently facilitates the (i) online trading of Digital Assets including their sale and purchase (either using INR denominated funds or another form of Digital Assets) , (ii) transfer of Funds from a User's INR Wallet into its Linked Banked Account and vice versa, and (iii) online storage of Digital Assets owned by the Users (collectively the "Services"), operated by Discidium Internet Labs Pvt. Ltd. (the "Company" or "Kolnex") incorporated under the Indian Companies Act, 2013 having its registered office at A/101, Viraj SOC, Govardhan Nagar, Mulund (W), Mumbai – 400080.

3. DEFINITIONS

"Coin Wallet" means an online address accessible through the Online Platforms and operated by a User for storage of its Digital Assets;

"Content" means any information, text, graphics, or other materials uploaded by the Company or the users, which appears on the Online Platforms for other users to access.

"Digital Assets" refers to blockchain based crypto-currencies such as Bitcoins, Litecoin, Ethereum, Ripple, etc., as well as proprietary coins and tokens;

"INR" means Indian Rupees;

"INR Wallet" means an online address accessible through the Online Platforms and operated by a User for the storage of the User's INR holdings;

"Funds" refers to both Digital Assets and INR, as the case maybe;

"Linked Bank Account" refers to any bank account owned and operated by the User and held with a Scheduled Commercial Bank, whose details were provided by the User during the activation process mentioned under Clause 7.1 herein;

"Sanctions Lists" has the meaning given to it under the AML Policy;

"Wallet(s)" refers to a User's Coin Wallet and/or its INR Wallet, as the case maybe;

Any reference to "you" or "your" or "user" refers to you as a user of the Online Platforms and the Services and any reference to "we", "our" and "us" shall refer to the Company as the provider of the Services.

4. CHANGES TO THESE TERMS AND SERVICES

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- 4.1. We may revise these Terms at any time by amending this page. Please check this page from time to time to take notice of any changes we made, as they are binding on you.
- 4.2. We may, without prior notice, change the Services; add or remove functionalities or features; stop providing the Services or features of the Services, to you or to users generally; or create usage limits for the Services.

5. CHANGES TO THE ONLINE PLATFORMS

- 5.1. We may update the Online Platforms from time to time, and may change the Content at any time. However, please note that any of the Content on the Online Platforms may be out of date at any given time and we are under no obligation to update it.
- 5.2. We do not guarantee that the Online Platforms, or any Content on it, will be free from errors or omissions.

6. ACCESSING THE ONLINE PLATFORMS

- 6.1. We do not guarantee that your use of the Online Platforms, will always be available or be uninterrupted. Access to the Online Platforms is permitted on a temporary basis. We may suspend, withdraw, discontinue or change all or any part of the Online Platforms without notice. We will not be liable to you including without limitation for any losses incurred due to volatility of prices of the Digital Assets if for any reason the Online Platforms are unavailable at any time or for any period.
 - 6.2. You are also responsible for ensuring that all persons who access the Online Platforms through your internet connection are aware of these Terms and other applicable terms and conditions, and that they comply with them.
-

7. YOUR ACCOUNT AND PASSWORD

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7.1. If you choose to register with us through the Online Platforms, an account will be created for your use on the Online Platforms and you will be provided with required Account Information to enable your access to the Account. In order to access any Services, you must activate your account ("User Account") by following the identity verification process specified in the AML Policy. Failure to complete the User Account activation process as per the AML Policy will entitle the Company to terminate the said User Account. The term "Account Information" refers to a password and such information which may be provided by you as part of our security and verification procedures. If you register on the Online Platforms through any third party website like gmail, the login information of such third party account, as the case may be, shall be considered part of the Account Information. You must always treat Account Information as confidential and must not disclose it to any third party. Any access to the Online Platforms through your Account shall be considered as access by you or on your behalf and you shall be solely responsible for any activity carried out in, by or through your Account either on the Online Platforms or any other website accessed by you through the Online Platforms.

7.2. You represent and warrant that: (A) you are competent to contract i.e. (i) if you are an individual, that you are over eighteen years of age, or (ii) that if you are registering on behalf of an entity, that you are authorized to enter into, and bind the entity to, these Terms and register for the Services, in accordance with the laws of India; and (B) your name is not included in any Sanctions Lists; and (C) you are an Indian resident as defined under the Foreign Exchange Management Act, 1999 and the rules and regulations framed thereunder; and (D) your membership has not been suspended or terminated by us for any reason whatsoever. If we change the eligibility criteria to be registered with the Online Platforms and you no longer comply with the new eligibility criteria, as determined by us in our sole discretion, you accept that we may close your Account without any liability for us. You are solely responsible for ensuring that you are in compliance with these Terms and with all laws, rules and regulations

applicable to you. If your right to access the Services is revoked or use of the Services is in any way prohibited, in such circumstances, you agree not to use or access the Online Platforms or use the Services in any way.

7.3. We have the right to disable your access to the User Account or any part of it, whether chosen by you or allocated by us, at any time, if in our reasonable opinion you have failed to comply with any of the provisions of these Terms, including without limitation the AML Policy.

7.4. If you know or suspect that anyone other than you knows or has unauthorized access to your Account Information or any part of it, you must promptly notify us by sending us an e-mail at team@koinex.in. We are not liable for any losses or other consequences of unauthorized use of your account.

8. YOUR WALLETS

8.1. Upon activation of your User Account, we will provide you with an INR Wallet and a Coin Wallet. These Wallets enable you to purchase, send, receive or store Digital Assets supported by the Online Platforms. You are required to maintain a minimum balance of Funds in your Wallets before you initiate an order and/or transaction. We reserve the right to refuse to execute any order and/or transaction initiated by you, if they are in contravention to the AML Policy or to comply with directions of appropriate enforcement authorities.

8.2. Terms of INR Wallet

8.2.1. An INR Wallet has been provided to store your INR holdings. Funds held herein can only be used to purchase Digital Assets through Koinex, and the INR denominated sale proceeds of any Digital Assets will be credited into this INR Wallet, less the applicable Transaction Fee. You are not entitled to any interest on the Funds held in the INR Wallet.

8.2.2. In case you wish to acquire Digital Assets using INR funds you will be required to transfer Funds from your Linked Bank Account to your INR Wallet to purchase any Digital Assets. Your INR Wallet will reflect funds transferred to it within 3 working days of such transfer being initiated, subject to any delays in the relevant banking channels.

8.2.3. You may withdraw the Funds held in your INR Wallet, by making a formal request to transfer such Funds into the Linked Bank Account, through the Online Platforms at any time ("**Withdrawal Request**"). The Company will endeavour to settle each Withdrawal Request within 3 working days of such request being made, subject to any delays in the relevant banking channels.

8.3. Terms of Coin Wallet

8.3.1. A Coin Wallet has been provided to you wherein Digital Assets may be stored.

Funds held in this Wallet may be used to purchase another Digital Asset, and any sale proceeds obtained in form of Digital Assets will be credited only into this Wallet.

You are not entitled to any interest on the Funds held herein.

8.3.2. You are permitted to withdraw Funds held in this account, provided such Funds can only be transferred to another digital asset wallet ("**External Wallet**"). You may be required to verify that you own and operate the External Wallet before your withdrawal request is accepted.

8.3.3. In case you transfer any Funds to a recipient who is not a User of our Online Platforms, we will invite such recipient to open a User Account, and transfer the Funds back to your Coin Wallet in case of such recipient's failure to open a User Account within 30 days.

8.3.4. You are not permitted to transfer, store or receive any digital assets not supported by our Online Platforms. You acknowledge that the Company shall not be liable for any losses suffered by you in connection with your attempt to transfer, store or receive digital assets in contravention of this Clause.

9. USER REPRESENTATIONS, COVENANTS AND OBLIGATIONS

These Terms govern your behaviour on the Online Platforms and set forth your obligations. You agree, confirm, and represent the following:

You shall comply with all the obligations set forth in these Terms, including without limitation the AML Policy.

You will use the Services rendered by us for lawful purposes only and comply with these Terms and all applicable laws, statutes, by-laws, acts of legislature or parliament, rules, regulations, orders, ordinances, protocols, codes, guidelines, or policies of any governmental authority, including without limitation the Prevention of Money Laundering Act 2002, the Unlawful Activities (Prevention) Act, 1967; and all applicable judicial orders and precedent ("Applicable Laws") while using and transacting on the Online Platforms.

Creation and maintenance of all Content in your Account shall be your sole responsibility.

You are responsible for safeguarding the password that you use as a part of your Account Information to access the Services and for any activities or actions under your Account. We encourage you to use "strong" passwords preferably using a combination of upper and lower case letters, numbers and symbols with your Account. The Company will not be liable for any loss or damage arising from your failure to comply with this instruction. You acknowledge that you will irreversibly lose your Digital Assets if you delete your Account.

You shall provide us with only such information (including without limitation Identification Documents submitted by you) that is true and accurate to the best of your knowledge.

You shall not cancel any orders initiated but not executed on the exchange.

In case any order is partially executed, we may in our sole discretion permit cancellation of the unexecuted order. You acknowledge that all orders and/or transactions are irreversible once executed.

You must maintain sufficient Funds in your Wallets before initiating any order and/or transaction. In case you have insufficient funds in your Wallet then the Company may either cancel your order or execute a partial transaction using the Funds available in your Wallet.

You understand that certain taxes may be applicable upon the trading of Digital Assets and you would be required to determine your tax liability under the Applicable Laws. You acknowledge that you're solely responsible for payment of any taxes that may arise in connection with your use of Services.

As the price of Digital Assets are very volatile and subject to fluctuation, you acknowledge that the actual market rate at which an order and/or transaction is executed may vary.

The Company may be required to suspend trading in cases of a force majeure event. You acknowledge that: (i) your access to the Services and/or the Funds during such periods may be limited or restricted; and (ii) the market conditions may differ significantly, following the completion of such Force Majeure Events.

We do not control the underlying technology which governs the mining, creation, sale of any Digital Assets. You acknowledge the Company does not exercise any control over the market price or circulation or volatility of the Digital Assets and that the contract for sale of any of the Digital Assets shall be a strictly bipartite contract between the seller and the buyer.

10. RISKS

10.1. A considerable loss may be sustained/incurred while trading in Digital Assets, hence you are advised to determine your financial circumstances and risk tolerance before trading and carefully consider the following risks:

Digital Assets are currently unregulated and trading, holding and transferring some or all Digital Assets may be deemed illegal in India in the future. You are encouraged to obtain appropriate legal counsel regarding the same before using the Online Platforms;

The value of any Digital Asset is very volatile and you may sustain a total loss of your Funds Due to the market being in a nascent stage, during a market disruption or during a force majeure event, you may face difficulties or impossibility in liquidating your position under certain market conditions.

Digital Assets are not backed by a central bank or any other financial regulator and as such there is no third party that may take any corrective action upon the occurrence of a global/regional crisis;

Since Digital Assets are held online, they are susceptible to security breaches and government crackdowns that may end up compromising the integrity or anonymity of the system that produce such Digital Assets;

10.2. You acknowledge that the aforementioned is an inexhaustive statement of risks associated with the trade of Digital Assets and that there may be additional risks not listed or foreseen by the Company.

10.3. By creating User Account you acknowledge that you have carefully assessed your financial standing and risk tolerance and you confirm that the same is suitable for trading in Digital Assets.

11. FEES

11.1. Creation of an Account on the Online Platforms and usage of the Online Platforms is free. The Company shall charge a fixed fee of Rs.100/- for verification of the User Account ("**Verification Fee**").

11.2. Trading on the Online Platform is subject to payment of a fee on each transaction executed ("**Transaction Fee**"). The Transaction Fee chargeable on each trade shall be as provide in the Fee Schedule.

11.3. Deposit of Digital Assets in the Coin Wallet is free of charge. Deposit of INR in the INR Wallet by NEFT/IMPS is also free of charge. Deposit of INR in the INR Wallet through credit card, debit card or net banking will be subject to a transaction fee of 2%. Fee applicable on withdrawal of Digital Assets or INR shall be as provided in the Fee Schedule. Deposits and withdrawals on Digital Assets or INR will be subject to withdrawal limits provided in the Fee Schedule.

12. INTELLECTUAL PROPERTY RIGHTS

12.1. Unless otherwise specified, all Content on the Online Platform is the property of the Company and are protected under copyright, trademark and other applicable laws.

12.2. The trademarks, service marks and logos of the Company and others used on the Online Platforms ("**Trademarks**") are the property of the Company and their respective owners.

12.3. Users shall not reverse engineer or disassemble any part of the Online Platforms for any reason whatsoever. Any such action shall amount to a material breach of the Terms and may result in the Company terminating the defaulting Users' User Account

12.4. The Online Platforms may in places include third party intellectual property including the software used for creating or distributing Digital Assets. The Company does not own any rights to such third party IP and is bound by the license terms for such IP and by virtue of these terms the Users shall also be bound by the said license terms.

13. NO RELIANCE ON INFORMATION

- 13.1. The Content on the Online Platforms is provided for general information only. It is not intended to amount to investment advice on which you should rely. You must obtain specialist advice before taking, or refraining from, any action on the basis of the content provided on the Online Platforms.
- 13.2. We display some content that is not ours. This content is the sole responsibility of the person/entity who makes it available. The content of the Online Platform, including without limitation, text, copy, audio, video, photographs, illustrations, graphics and other visuals, is for informational purposes only and does not constitute professional investment advice, tips or recommendations of any kind. For the avoidance of doubt it is clarified that the Company does not provide investment and financial advice to its Users. Reliance on any information appearing on the Online Platforms, whether provided by the Company, its content providers, visitors to the Online Platforms or others, is solely at your own risk; and the Company shall not bear any liability for any loss/ injury that may arise due to your reliance on any information published on the Online Platforms. You further acknowledge and agree that should any claim/ damage/ liability arise as a result of any reliance placed by you on any information published on the Online Platforms, the Company shall have no liability in relation to the same. We may review content to determine whether it is illegal or violates our policies, and we may remove or refuse to display content that we reasonably believe violates our policies or the law. But that does not necessarily mean that we review content, so please don't assume that we do.
- 13.3. We assume no responsibility for the content of websites linked on the Online Platforms. Such links should not be interpreted as endorsement by us of those linked websites. We will not be liable for any loss or damage that may arise from your use of them.
- 13.4. Although we make reasonable efforts to update the information on the Online Platforms, we make no representations, warranties or guarantees, whether express or implied, that the Content on the Online Platforms is accurate, complete or up-to-date.
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14. DISCLAIMER OF WARRANTIES

14.1. You expressly acknowledge and agree that use of the Services and the Online Platforms is at your sole risk. The Services and the Online Platforms are provided on an "as is" and "as available" basis. Although we make best efforts to provide high quality Services to all our users, to the fullest extent allowed by law, we expressly disclaim and waive all warranties and conditions of any kind, whether express or implied, including, but not limited to the warranties of merchantability, fitness for a particular purpose or title. The contents of the Services or the Online Platforms may contain bugs, errors, problems or other limitations. We assume no liability or responsibility for any errors or omissions in Content.

14.2. We are not responsible for the Content uploaded by you on the Online Platforms.

We are not responsible for any direct or indirect damages or losses caused to you, including without limitation, lost profits, business interruption or other loss resulting from use of or reliance in any way on anything available on the Online Platforms. It is solely your responsibility to evaluate the accuracy, reliability, completeness and usefulness of Content available on the Online Platforms that is used by you.

14.3. We make no warranty that the Services or the Online Platforms will meet your requirements or that the Services or your access to the Online Platforms will be uninterrupted, timely, accurate or reliable; nor do we make any warranty as to the permanent availability of any information and/or that may be stored or transferred through the Services or the Online Platforms.. In case there is any defect in any software being used for the provision of the Services, we do not make any warranty that defects in such software will be corrected. You understand and agree that any material and/or data downloaded or otherwise obtained through use of the Services or Online Platforms is done at your own discretion and risk and you will be solely responsible for any damage to your computer system or loss of data that results from the download of

such material or data. In case you store or transfer any information and/or data through the Services or the Online Platforms, you are strongly advised to make back-up duplicate copies and are solely responsible for any loss.

- 14.4. No advice or information, whether oral or written, obtained by you from the Services or the Online Platforms shall create any warranty not expressly made herein.

15. VIRUSES

- 15.1. You will be responsible for introduction of any viruses, trojans, worms, logic bombs or other material which is malicious or technologically harmful. You must not attempt to gain unauthorised access to the Online Platforms, the server on which the Online Platforms is stored or any server, computer or database connected to the Online Platforms. By breaching this provision, you would commit a criminal offence under the Information Technology Act, 2000. We will report any such breach to the relevant law enforcement authorities and we will cooperate with those authorities by disclosing your identity to them. In the event of such a breach, your right to use the Online Platforms will cease immediately.
- 15.2. We will not be liable for any loss or damage caused by a virus, denial-of-service attack, distributed denial-of-service attack, or other technologically harmful material that may infect your computer equipment, computer programs, data or other proprietary material due to your use of the Online Platforms or your downloading of any Content on it, or on any website linked to it.
- 15.3. You should use your own virus protection software. We cannot and do not guarantee or warrant that files available for downloading from the Online Platform will be free of infection by viruses, worms, trojan horses or other code that manifest contaminating or destructive properties.
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16. LIMITATION OF OUR LIABILITY

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16.1. To the extent permitted by law, we exclude all conditions, warranties, representations or other terms which may apply to the Online Platform or any Content on it including any information on the Online Platform itself or Services, whether express or implied.

16.2. Our aggregate liability to any user in no event shall exceed the fees paid by such user during the 6 (six) months immediately preceding the date of claim for any direct, indirect or consequential loss or damage, whether in contract, tort (including negligence), breach of statutory duty, or otherwise, even if foreseeable, including those arising under or in connection with:

use of, or inability to use, the Services or the delays in transmission or operation of the Online Platforms; or

use of or reliance on any Content and/or information displayed on the Online Platforms; or

From errors, mistakes, omissions, or deletion of files; or

use of the Services provided through the Online Platforms;

whether or not resulting from any communication failure, theft, unauthorised access or a force majeure event.

16.3. If you are a business user, please note that in particular, we will not be liable for:

loss of profits, sales, business, business opportunity or revenue;

business interruption;

loss of anticipated savings;

loss of business opportunity, goodwill or reputation; or

16.4. Please note that all Services provided through the Online Platforms are only for domestic and private use. You agree not to use the Online Platforms for any

commercial or business purposes without obtaining a legally valid license to do so in accordance with these Terms.

17. ELECTRONIC COMMUNICATIONS

17.1. When you visit the Online Platforms or send e-mails to us, you are communicating with us electronically. You consent to receiving communications from us electronically. We will communicate with you by e-mail or by posting notices on this Online Platform. You agree that all agreements, notices, disclosures and other communications that we provide to you electronically satisfy any legal requirement that such communications be in writing. You agree that in case there are any changes in any information provided by you to us, including your e-mail address and other contact details, you will be solely responsible to update them regularly. If we send any communication by e-mail, it shall be sent to your e-mail address available on the records created by you on the Online Platform and it shall be deemed to have been received by you once it is reflected as sent in the outbox of our e-mail id. You may opt-out of receiving any electronic communications from us at any time by sending us an email at team@koinex.in.

17.2. You acknowledge that by sending any communication or information to you either through email or the Online Platforms, we are not providing you with any 'investment advice'.

18. LINKING AND FRAMING

18.1. If you choose to authenticate your Account through a third party service, like Google, you are linking that account to your Account.

18.2. You may link to our home page, provided you do so in a way that is fair and legal and does not damage our reputation or take advantage of it.

- 18.3. You must not establish a link in such a way as to suggest any form of association, approval or endorsement on our part where none exists.
- 18.4. You must not establish a link to the Online Platforms in any website that is not owned by you.
- 18.5. Our website must not be framed on any other website, nor may you create a link to any part of the Online Platforms other than the home page.
- 18.6. We reserve the right to withdraw linking permission without notice.
- 18.7. If you wish to make any use of Content on the Online Platforms other than that set out above, please send us an e-mail at team@koinex.in.

19. INDEMNIFICATION

To the maximum extent permitted by Applicable Law, you shall indemnify and hold harmless the Company, its owners, licensee, affiliates, subsidiaries, group companies (as applicable) and their respective officers, directors, agents, and employees, from any claim or demand, or actions including reasonable attorneys' fees, made by any third party or penalty imposed due to or arising out of or relating to (a) your use of our Services, (b) your breach of these Terms, or (c) your violation of any law, rules or regulations or the rights (including infringement of intellectual property rights) of a third party.

20. RELEASE AND WAIVER

- 20.1. To the maximum extent permitted by Applicable Law, you hereby release and waive all claims against the Company, and its subsidiaries, affiliates, officers, agents, licensors, co-branders or other partners, and employees from any and all liability for claims, damages (actual and/or consequential), costs and expenses (including

litigation costs and attorneys' fees) of every kind and nature, arising from or in any way related to your use of the Online Platforms, its services, content or use of the Digital Assets. You understand that any fact relating to any matter covered by this release may be found to be other than now believed to be true and you accept and assume the risk of such possible differences in fact. In addition, you expressly waive and relinquish any and all rights and benefits which you may have under any other state or federal statute or common law principle of similar effect, to the fullest extent permitted by law.

20.2. If we fail to insist that you perform any of your obligations under these Terms, or if we do not enforce our rights against you, or if we delay in doing so, that will not mean that we have waived our rights against you and will not mean that you do not have to comply with those obligations. If we do waive a default by you, we will only do so in writing, and that will not mean that we will automatically waive any later default by you.

21. APPLICABLE LAW

21.1. Please note that these Terms, its subject matter and its formation, are governed by the laws of the Republic of India. The courts of New Delhi, India will have exclusive jurisdiction to deal with any dispute arising out of or in connection with these Terms or any other terms and conditions made applicable on you by us and you consent to the jurisdiction and venue of such courts and waive any objection as to inconvenient forum. In case, you choose to access the Online Platforms from any jurisdiction not governed by the laws of India, you are solely responsible for compliance with local laws of that jurisdiction and all applicable laws of such jurisdiction.

22. TERMINATION

22.1. We reserve the right to refuse to continue providing you with access to the Online Platforms if we discover that you are (a) incompetent to contract by virtue of your age or otherwise under these Terms or the Applicable Law and/or (b) in breach of the Terms. The Online Platforms are not available to persons whose name is included in any Sanctions Lists or whose membership has been suspended or terminated by us for any reason whatsoever.

23. GENERAL TERMS

23.1. **Relationship of the Parties:** Notwithstanding any provision hereof, for all purposes including without limitation execution of any order and/or transaction initiated by you through the Online Platforms, you and the Company shall be and act independently and not as a partner, joint venturer, agent, intermediary, broker or in any other fiduciary capacity. You shall not have any authority to assume or create any obligation for or on behalf of the Company, express or implied, and you shall not attempt to bind us to any contract.

23.2. **Invalidity of Specific Terms:** If any provision of the Terms is found by a court of competent jurisdiction to be invalid, other provisions of such the Terms shall remain in full force and effect.

23.3. **Entire Agreement:** These Terms, the Privacy Policy, the AML Policy, and Fees Schedules incorporated by reference herein comprise the entire understanding and agreement between you and the Company as to the subject matter hereof, and supersedes any and all prior discussions, agreements and understandings of any

kind (including without limitation any prior versions of these Terms), and every nature between and among you and the Company. Section headings in these Terms are for convenience only, and shall not govern the meaning or interpretation of any provision of these Terms.

24. CONTACT US

24.1. For general enquires complaints and/or giving any feedback, please email to team@koinex.in

24.2. In case you do not want to continue using our Services and want to deactivate your Account with us, please contact is at team@koinex.in

24.3. If you do not agree with any provision of these Terms and wish to opt out of such provision, please write to us at team@koinex.in ("**Opt-out Request**"). You agree that you are not entitled to use the Online Platforms or the Services unless your Opt-out Request is accepted by us in writing.

THANK YOU FOR VISITING US.

TRUE COPY

ANTI-MONEY LAUNDERING POLICY

This Anti-Money Laundering Policy ("AML Policy") is testimony to the Company's commitments against money laundering, financing of terrorism, and related illegal activities. It describes the Company's policies and procedures instituted to ensure that the Services offered by the Company are not being used by the Users to facilitate commission of any criminal offences, including but not limited to those under the Prevention of Money Laundering Act, 2002 and the Unlawful Activities Prevention Act, 1967. Although under the said laws, the Company does not qualify as an entity obligated to follow the procedures prescribed herein, the Company has prepared this AML Policy to ensure the transparency of trading and to ensure the prevention of money laundering and other illegal activities.

The terms "We", "Our", "Company" and "Us" refer to the Company, and the terms "User", "You" and "Your" refer to a User of our Online Platforms.

This AML Policy applies uniformly to any User desirous of availing the Services or otherwise using or benefitting from the use the Online Platforms and may be read as a part of the User Terms and Conditions. It is imperative that you read this AML Policy before using the Online Platforms or submitting any personal information. By using the Online Platforms, you are expressly consenting to be bound by the User Terms and Conditions and consequently this AML Policy.

1. DEFINITIONS

1.1. In this AML Policy:

"Beneficial Owner" means:

- (i) In case of companies, the natural person who has ownership of over 25% (twenty five per cent) of the shares, is entitled to over 25% (twenty five percent) of the profits, or has the power, directly or indirectly, to appoint or elect more than half of the board of directors of such company, as the case maybe;
- (ii) In case of partnership firms/Limited Liability Partnerships, the natural person who has ownership of over 15% (fifteen per cent) of the capital or is entitled to over 15% (fifteen per cent) of the profits of such firm, as the case maybe;

"Identification Document(s)" refers to:

- (i) Permanent Account Number (PAN) card;
 - (ii) Aadhaar Number;
 - (iii) Passport, Driving License, Government issued identity cards; or
 - (iv) such other document as may be notified by the Company from time to time;
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“Periodic Updation” refers to undertaking the User’s identity verification afresh by following the procedure prescribed under Clause 8.1 (*Customer Verification Procedure*) of this AML Policy, at such intervals as the Company deems fit or as directed by appropriate enforcement authorities.

“Sanction Lists” refer to lists of natural and juridical persons included under any list circulated by the Reserve Bank of India and the United Nations Security Council, including without limitation, the ISIL and Al-Qaida Sanctions List and the 1988 Sanctions List.

“Suspicious Transactions” refers to the following activities, whether attempted or executed:

- (i) **Terrorist financing:** transactions which to a person acting in good faith appear to be any funds collected to be used, in full or in part, by any terrorist or related organization, or in order to carry out any of the activities relating to terrorism, or terrorist acts;
- (ii) **Unusually Complex:** transactions which to a person acting in good faith appear to have been structured in a manner of unusual or unjustified complexity;
- (iii) **Malafide Purpose:** transactions which to a person acting in good faith appear to have not been transacted for bonafide purpose or have a sound economic rationale.
- (iv) **Money Laundering:** transactions which to a person acting in good faith appear to involve proceeds of any offence listed in the Schedule to the Prevention of Money Laundering Act, 2002.

- 1.2. The capitalized terms used herein, but not defined, shall have the meaning given to such terms in the Terms (defined below).

2. **AML POLICY IS PART OF FOUR TERMS**

This AML Policy is a part of and incorporated within, and is to be read along with the User Terms and Conditions (the **Terms**”).

3. **POLICY CHANGES**

The Company may change and update this AML Policy from time to time. Such changes may be made without prior notice, but any changes will only apply to activities and information on a going forward, not retroactive basis. You are encouraged to review this AML Policy whenever you access the Online Platforms.

4. **YOUR OBLIGATIONS**

- 4.1. You acknowledge that it is your duty to ensure compliance with the terms and conditions described in this AML Policy and accord your consent to not using the Services and the Online Platforms in any manner which results in committing/attempting to commit any criminal offences.

You also agree and consent to any changes made to this Privacy Policy in due course and without notice.

- 4.2. You must ensure that any personal information and/or Identification Documents submitted by you belong to you.
- 4.3. You must file a fresh proof of address within six months of making any changes to the address mentioned as per the 'proof of address' submitted by you.
- 4.4. In case you are acting on behalf of a juridical person, you must identify the Beneficial Owner and also assist in verification of the identity of such Beneficial Owner and any individual who purports to act on behalf of such juridical person.

5. PURPOSE OF THIS POLICY

In order to mitigate its risks relating to money laundering and other illegal activities, the Company intends to put in place this policy which has the following elements:

- (i) Customer Acceptance Terms; and
- (ii) Risk Management Procedure; and
- (iii) Customer Verification Procedure; and
- (iv) Transaction Monitoring Terms

6. CUSTOMER ACCEPTANCE TERMS

- 6.1. The Company may either at the time of opening the User Account, or while undertaking any transactions, or during Periodic Updation, or for any other reason, ensure your compliance with the following:
 - (i) Require that you undergo a verification process during the activation process of your User Account by submitting your Identification Documents and such other details, as mandated under Clause 8 (*Customer Verification Procedure*) of this AML Policy;
 - (ii) Require you to furnish such other details as may be deemed necessary by the Company to verify your identity, if the Company has reason to believe that you are a person or entity enlisted in the Sanctions Lists.
 - (iii) Require you to submit such additional information and/or data as may be directed by a competent enforcement authority.
 - (iv) Require you to certify that your Linked Bank Account is held only with a scheduled commercial bank compliant with all Know Your Customer (KYC) procedures mandated under the applicable laws.
- 6.2. The Company may, in its sole discretion, refuse to open any new accounts, terminate existing User Accounts after giving due notice, or refuse to process any transactions on the Online

Platforms if it is unable to ensure compliance with any of the aforementioned conditions, either due to non-cooperation by the User or due to the details provided by the User being found enlisted on any Sanctions Lists or unreliable or unverifiable to the Company's satisfaction.

7. RISKMANAGEMENTPROCEDURE

The Company may categorize its Users including you into low, medium or high risk categories, after undertaking an appropriate risk assessment of each User based on the following factors (including without limitation):

- Sufficiency and adequacy of identification information submitted under Clause 8 (*Customer Verification Procedure*); or
- Its social and/or financial status; or
- Nature of User's business/vocational activities; or
- Guidance notes circulated by various governmental and inter-governmental organizations.

You acknowledge that in order to maintain the integrity of the Risk Management Procedure, the Company will keep your risk categorization and any data related thereto confidential. You will not be entitled to seek disclosure of your risk categorization. However, the Company may disclose the User's risk categorization data to the competent enforcement authority if it finds that a particular User has executed or is likely to execute any Suspicious Transaction.

8. CUSTOMERVERIFICATIONPROCEDURE

8.1. The Company, during activation of User Accounts or while undertaking any transactions or for any other reason, may require for the purposes of verification of any User's identity, following details:

- In case of individuals - one copy of any Identification Document containing their identity and address details; one recent photograph; any other documents pertaining to business/financial status of such individual as may be prescribed by the Company from time to time;
- In case of companies - one copy each of the Certificate of Incorporation; Memorandum and Articles of Association; Board resolution authorizing to transact on the Online Platform; Identification Documents containing identification and address details of the individual authorised to transact along with a copy of such authorization document;
- In case of partnership firm/Limited Liability Partnership - one copy each of the Registration/Incorporation Certificate; partnership deed; Identification Documents containing

identification and address details of the individual authorised to transact along with a copy of such authorization document;

Users must ensure that all copies of aforementioned Identification Documents are duly certified.

8.2. For the purposes of verification of any User's identity, the Company may rely on appropriate and licensed third party service providers to authenticate the Identification Documents and other incidental details provided by the User.

8.3. If the Company finds any User information obtained in accordance with the procedure described under this Clause to be inadequate, insufficient, or enlisted on the Sanctions Lists, the Company may in its discretion either refuse or terminate (as the case may be) the registration of such User Account or require verification of such User's Identification Documents again.

9. TRANSACTION MONITORING TERMS

9.1. All transactions executed and/or attempted to be executed on the Online Platforms are regularly monitored by the Company, both manually and through use of software based algorithms, in order to promptly identify and highlight certain kinds of transaction including without limitation, the following kinds of transactions:

- High value transactions of amounts greater than INR 50,000 (Rupees Fifty Thousand)
- Cross-border transactions of amounts greater than INR 5 Lakhs (Rupees Five Lakhs);
- Suspicious Transactions;

9.2. The Company may, from time to time, undertake necessary investigation in order to identify and examine transactions inconsistent with any User's risk profile (determined in accordance with Clause 7 (*Risk Management Procedure*) above), sophistication, and expected usage pattern.

9.3. The extent of monitoring shall depend on various factors including upon each User's risk profile.

9.4. The Company reserves the right to terminate the User Account, restrict and/or prevent access to Online Platforms, or report to the appropriate enforcement authorities the activities of any User in respect of transactions identified under this Clause 9 (*Transaction Monitoring Terms*).

10. MAINTENANCE OF RECORDS

The Company will maintain and preserve the following information and/or data:

- Records of all transactions executed on the Online Platforms, for a period of at least 10 (Ten) years from the date of each transaction.

- Records of all transactions identified under Clause 9 (*Transaction Monitoring Terms*) above for a period of at least 12 (Twelve) years, including but not limited to the information about the nature, value and parties to such transactions, and their date of remittance.
- Identification records of Users (including but not limited to the Identification Documents submitted pursuant to Clause 8 (*Customer Verification Procedure*) above), during the subsistence of and for a period of at least 10 (Ten) years from the date of termination of such User Account.

11. COMPLIANCE, DISCLOSURE, AND NOTICES

- 11.1. The Company may share, from time to time, information regarding transactions identified under Clause 9 (*Transaction Monitoring Terms*), identification information of such Users, or any other information mandated under the applicable law, with the appropriate enforcement authorities.
- 11.2. In order to improve the integrity and transparency of transactions on the Online Platforms, you are encouraged to report any information you are privy to or become privy to in the future regarding any Suspicious Transactions or transactions you have find or have reason to believe are dubious in nature, to our Compliance Officers by writing to them at team@koinex.in.
- 11.3. In order to ensure compliance with this AML Policy and/or the applicable laws, the Company may be required to send you notices from time to time. All such notices will be sent to such address as provided by you under Clause 8 (*Customer Verification Procedure*) of this AML Policy. Where you are required to share any information according to the procedures contained in this AML Policy, such communication may be made by you electronically by sending an email to team@koinex.in.

You may also contact us at the following address: Koinex, Discidium Internet Labs Pvt. Ltd. 91springboard,

B Wing, 6th Floor, Ackruti Trade Centre, MIDC, Andheri, East, Mumbai - 400093

True Copy

Kumar BE Fwd: Regarding a Rupee based cryptocurrency

Wed, Apr 11, 2018 at 11:40 AM

Abhishek Gopal ; abhishek@throughbit.com> Wed, Apr 11, 2018 at 11:40 AM

To: Kumar Swamy: kumar@throughbit.com> Forwarded message

From: Abhishek Gopal Date: Mon, 18 Sep 2017 at 6:30 PM

Subject: Regarding a Rupee based cryptocurrency To: Cc: Roshan Mohammed

Dear Sir

I write to you representing ThroughBit, a Blockchain startup.

We have been reading in the news regarding a Rupee based cryptocurrency that the Govt. of India is exploring. We would like to bring to your notice that we have been working on something on similar lines for the last year and a half and we now have a working product that we would like to showcase to the RBI. We call it FALCON. Falcon is a smart contract on Ethereum and is fast and secure. We would like the opportunity to be able to present the same to you and explore the possibility of being of some assistance to the RBI.

Look forward to hearing from you.

Sincerely Abhishek G

Thanks G Abhishek

CEO ThroughBit Technologies Pvt Ltd

+91 9900061353 +1 (516)-728-7236

The most important solutions are often the simplest ones

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ITEM NO. 40

COURT NO.1

SECTION PIL-W

SUPREME COURT OF INDIA
RECORD OF PROCEEDINGSWrit Petition (Civil) No. 1076/2017

DWAIPAYAN BHOWMICK

Petitioner(s)

VERSUS

UNION OF INDIA & ORS.

Respondent(s)

(FOR ADMISSION)

WITH

W.P. (C) No. 1071/2017 (PIL-W)

Date : 13-11-2017 These matters were called on for hearing today.

CORAM :

HON'BLE THE CHIEF JUSTICE

HON'BLE MR. JUSTICE A.M. KHANWILKAR

HON'BLE DR. JUSTICE D.Y. CHANDRACHUD

For Petitioner(s)

WP(C) 1076/2017

Mr. Kapil Joshi, Adv.

Mr. Pulkrit Agarwal, Adv.

Mr. Ishit Sahariya, Adv.

Mr. Palav Agarwal, Adv.

Mr. Vishal Vardhan, Adv.

Mr. Amit Karkhanis, Adv.

Mr. Pashupathi Nath Razdan, AOR

WP(C) 1071/2017

Petitioners-in-person

For Respondent(s)

UPON hearing the counsel the Court made the following
ORDER

Issue notice.

Digitized by
eSangam
11.02.2018
Pratibha

(Deepak Guglani)
Court Master(H.S. Parasher)
Assistant Registrar

TRUE COPY

December 05, 2017

ANNEXURE - P.15

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**Reserve Bank cautions regarding risk of
virtual currencies including Bitcoins**

Attention of members of public is drawn to the Press Release issued by the Reserve Bank of India (RBI) on December 24, 2013, cautioning users, holders and traders of Virtual Currencies (VCs) including Bitcoins regarding the potential economic, financial, operational, legal, customer protection and security related risks associated in dealing with such VCs.

Vide press release dated February 1, 2017, RBI has also clarified that it has not given any licence/authorisation to any entity/company to operate such schemes or deal with Bitcoin or any VC.

In the wake of significant spurt in the valuation of many VCs and rapid growth in Initial Coin Offerings (ICOs), RBI reiterates the concerns conveyed in the earlier press releases.

Jose J. Kattoor

Press Release: 2017-2018/1530 Chief General Manager

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Kotak

Kotak Mahindra Bank

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Date: December 21, 2017

To,

Attention:- Shashank Kumar / Harshil Mathur Razorpay Software Private Limited,

No 22, 1st Floor SJR Cyber, Housr Main road, Adugodi, Bangalore - 560030

Dear Sir/Madam,

Sub: Your Account No 7911547334 held with our Bank

We bring to your notice the RBI Press Release dated 24 December 2013 cautioning the users, holders and traders of Virtual Currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to. Further RBI vide its Press Releases dated 01 February 2017 has advised Banks that the Regulator has not given any license / authorization to any entity / company to operate such schemes or deal with Bitcoin or any virtual currency. RBI has issued another Press Release on 5th December 2017 reiterates the concerns already conveyed in the earlier two Press Releases.

On review of the transactions in your above mentioned account we have noticed that you have undertaken online transactions involving dealings in Bitcoin or a virtual currency with an indicative summary as under. The list of clients mentioned below is not exhaustive.

Period	1st Nov'17 to 18th Dec'17	
	No of Transactions	Value in cr
1. Total transactions to Razorpay accounts	3,59,598	1,035.00
2. Total transactions codes containing 'zeb' and 'koin'	3,50,266	954.66

Item mentioned in point 2 is a subset of point 1.

In this regards, Bank does not encourage its customers using their accounts maintained with us for carrying out transactions involving any kind of crypto / virtual currencies and hence we request you to immediately stop transactions involving dealings in Bitcoin or any kind of crypto / virtual currency from your above mentioned account.

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We request you to inform your partner clients in this regard and request them not to enable kotak bank as a payment option.

We have also noticed that the party/parties as mentioned above are depicting KMBL process flow as well as logo on their website. We request you to kindly get this information removed from all such websites including the two names mentioned above.

In case it is observed that you have undertaken such transactions from various sources post receipt of this letter, you may treat this letter as an advance caution letter and Bank will be constrained to close your account without giving any further intimation to you.

Please note that the Bank shall not be responsible and liable for declining any transactions/ return of cheques / losses arising/ any consequences or inconvenience caused to you on the account of closure of your account.

In case of any clarification required, please feel free to contact your Relationship Manager for the same. Thanking you

Yours sincerely

SD

Authorized Signatory

For Kotak Mahindra Bank Ltd

Kotak Mahindra Bank Ltd.

CIN L65110MH1985PLCO38137

5th Floor, M.G.Road

Bangalore - 560 001

T+91 61763413

www.kotak.com

Registered Office;

27 BKC, C 27, G Block

Bandra Kuria Complex,

Bandra(E), Mumbai 400051

Maharashtra, India

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Government Cautions People Against Risks in Investing in Virtual 'Currencies'; Says VCs are like Ponzi Schemes

Posted On: 29 DEC 2017 9:55AM by PIB Delhi

The Ministry of Finance has issued the following statement today on Virtual 'Currencies'.

"There has been a phenomenal increase in recent times in the price of Virtual 'Currencies' (VCs) including Bitcoin, in India and globally. The VCs don't have any intrinsic value and are not backed by any kind of assets. The price of Bitcoin and other VCs therefore is entirely a matter of mere speculation resulting in spurt and volatility in their prices. There is a real and heightened risk of investment bubble of the type seen in ponzi schemes which can result in sudden and prolonged crash exposing investors, especially retail consumers losing their hard-earned money. Consumers need to be alert and extremely cautious as to avoid getting trapped in such Ponzi schemes. VCs are stored in digital/electronic format, making them vulnerable to hacking, loss of password, malware attack etc. which may also result in permanent loss of money. As transactions of VCs are encrypted they are also likely being used to carry out illegal/subversive activities, such as, terror-funding, smuggling, drug trafficking and other money-laundering Acts.

VCs are not backed by Government fiat. These are also not legal tender. Hence, VCs are not currencies. These are also being described as 'Coins'. There is however no physical attribute to these coins. Therefore, Virtual 'Currencies' (VCs) are neither currencies nor coins. The Government or Reserve Bank of India has not authorised any VCs as a medium of exchange. Further, the Government or any other regulator in India has not given license to any agency for working as exchange or any other kind of intermediary for any VC. Persons dealing in them must consider these facts and beware of the risks involved in dealing in VCs.

The users, holders and traders of VCs have already been cautioned three times, in December, 2013,

February, 2017 and December, 2017, by Reserve Bank of India about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to by investing in Bitcoin and/ or other VCs. RBI has also clarified that it has not given any licence/ authorization to any entity/ company to operate such schemes or deal with Bitcoin or any virtual currency. The Government also makes it clear that VCs are not legal tender and such VCs do not have any regulatory permission or protection in India. The investors and other participants therefore deal with these VCs entirely at their risk and should best avoid participating therein.

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From: Manjunath Ambale manjunath.ambale@razorpay.com

**Subject: Re: Legal Notice: Non-Settlement of Dues Against Transactions
Made Through Razorpay on Koinex**

Date: 6 January 2018 at 12:42:58 PM IST

To: Rishabh Sinha <rishabh@tralaw.in>, Anirudh Rastogi <anirudh@tralaw.in>,
Rakesh Yadav <rakesh@koinex.in>, Rahul Raj <rahul@koinex.in>, Aditya
Naik aditya@koinex.in

Cc: Aman Bhatia <aman@tralaw.in>, Legal <legal@razorpay.com>,

Harshil Mathur harshil@razorpay.com

To,

January 6, 2018

Mr. Anirudh Rastogi

Partner

TRA Law

B99, Gulmohar Park, New Delhi 110049

Dear Sir,

Sub: Your Notice dated January 3, 2018

We, Razorpay Software Private Limited ("Razorpay/We") having our registered
office at No. 22, 1Floor, SJR Cyber, Adugodi, Bangalore 560030 are a reputed

company whose core area of business is providing payment solutions and payment gateway services to various sectors of business entities in India.

We refer to your notice dated January 3, 2018 ("Notice") received by us through email sent by your Advocate Mr. Rishabh Sinha vide his email [idrishabh@tralaw.in](mailto:drishabh@tralaw.in) on January 5, 2018 at around 8:05 Pm (IST) on behalf of your client Discidium Internet Labs Pvt Ltd ("**Koinex**").

We wish to state we have received a letter from Kotak Mahindra Bank Limited ("**Bank**") dated December 21, 2017 in which the Bank has referred to press releases dated December 24, 2013 and February 1, 2017 issued by Reserve Bank of India ("**RBI**") through which the RBI has stated that it has not given any license/ authorization to any entity / company to operate or deal with bitcoin or any virtual currency. Further the RBI has also cautioned the users, holders and traders of virtual currencies including bitcoins about potential financial, operational, legal, customer protection and security related risks.

The Bank in its letter has directed us to stop transactions involving any kind of crypto/virtual currency which are similar to the business of Koinex. Immediately, upon receiving the said letter we have intimated Koinex representatives regarding the same through telephonic conversation. We are here with attaching a copy the said letter received from the Bank for your reference.

Please be informed that, We are following up with the Bank on a regularly basis regarding releasing of funds to Koinex and also for our other crypto currency merchants at the earliest. We are given to understand that the Bank's authority for releasing crypto currency transaction funds are currently tied up due to the said press releases issued by RBI. In the given circumstance, Please note that, We are not in any way responsible or liable for not settling Koinex's funds as it is the prerogative and decision taken at the Bank's level due to the said RBI press releases and directions.

In light of the above mentioned circumstance, We would wish to clarify that Razorpay has no intention nor any authority to hold Koinex funds and have no control over functioning of the Bank. However, we shall keep Koinex duly informed as and when there is any update from the Bank regarding releasing their funds.

Please note that this letter/email is being issued to you without prejudice to any legal rights available to us under provisions of law. If your client Koinex wishes to proceed with any legal action against us may do so solely at their own risk, cost and consequences.

Best,

Manjunath Ambale

General Counsel Legal

+91 9886910933

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IMPORTANT: The contents of this email and any attachments are confidential. They are intended for the named recipient(s) only. If you have received this email by mistake, please notify the sender immediately and do not disclose the contents to anyone or make copies thereof.

From: Harshil Mathur <harshil@razorpay.com>

Date: Friday, January 5, 2018 at 8:46 PM

To: Rishabh Sinha <rishabh@tralaw.in>

Cc: Rahul Raj <rahul@koinex.in>, Aditya Naik <aditya@koinex.in>, Rakesh Yadav <rakesh@koinex.in>, Anirudh Rastogi <anirudh@tralaw.in>, AmanBha_a <aman@tralaw.in>, Legal

<legal@razorpay.com>, Manjunath Ambale <manjunath.ambale@razorpay.com>

Subject: Re: Legal Notice: Non-Settlement of Dues Against Transactions Made Through Razorpay on Koinex

+Manju from legal

IMPORTANT: The contents of this email and any attachments are confidential. They are intended for the named recipient(s) only. If you have received this email by mistake, please notify the sender immediately and do not disclose the contents to anyone or make copies thereof.

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4/13/2018 TRA Mail - Fwd: Legal Notice: Non-Settlement of Dues Against
Transactions Made Through Razorpay on Koinex

On Fri, Jan 5, 2018 at 8:05 PM, Rishabh Sinha <rishabh@tralaw.in> wrote:

Dear Mr. Harshil Mathur,

Under instructions from and on behalf of our Client, Discidium Internet Labs
Private Limited, CIN:U72900MH201PTC297782, having its registered address at
A/101, Viraj Soc, Govardhan Nagar, Mulund (W), Mumbai, Maharashtra □ 40090,
India, we hereby serve upon you the attached legal notice.

Regards,

Rishabh Sinha

Advocate

Rishabh Sinha, Counsel

TRA

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Govt plans framework to regulate cryptocurrencies by scal year-end

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Exchanges which have been set up for cryptocurrencies like bitcoin currently are not regulated exchanges, says economic affairs secretary Subhash Chandra Garg

The government will come out with a framework to regulate cryptocurrencies by the end of this financial year, as it looks to clamp down on rapidly growing virtual currencies such as bitcoin.

"We hope that within this year, the committee would finalize its recommendations and then it would require legal changes, regulatory assignments, but certainly there will be regulations by the end of this financial year," Subhash Chandra Garg, secretary, department of economic affairs, said at a CNBC TV18-*Mint* event on Budget 2018.

In December, the government had constituted a committee headed by Garg to study the impact of cryptocurrencies and to make recommendations to regulate them. Other members of the panel include Securities and Exchange Board of India chairman Ajay Tyagi and Reserve Bank of India deputy governor B.P. Kanungo.

Another committee had been set up before this to make recommendations on regulating bitcoin, but its report was never made public.

Finance minister Arun Jaitley said in his budget speech on Thursday that the government was opposed to cryptocurrencies, given that they could be a channel for money laundering and terrorist financing.

"The government will take all measures to eliminate use of these crypto assets in financing illegitimate activities or as part of the payment system," Jaitley said.

Reiterating the government's stance on cryptocurrencies, Garg said: "The exchanges which have been set up currently are not regulated exchanges. They are in a way self-set up, self-regulated.

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There are no legal or statutory requirements for conducting the KYC (know your customer), there are no records of the transactions.

"When you move to a system of regulated exchanges for crypto assets, then you have a proper trail," he added.

Last year, the income-tax department conducted raids at as many as nine bitcoin exchanges in the country. During its investigations, the department looked for evidence to establish the identities of investors and traders, and transactions undertaken by bitcoin traders in India.

According to Garg, transactions taking place using crypto assets which are legitimate will be regulated to make them transparent.

First Published: Sat, Feb 03 2018, 01:11 AM IST

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BaFin

Federal Financial
Supervisory Authority

146

Supervision

Topic Fintechs

Virtual Currency (VC)

Innovative means of payment have different names on a national and international level. They may be called virtual, digital, alternative or crypto currencies, money or coins, among other things. Examples include Bitcoin, Litecoin and Ripple.

In its Opinion (<http://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-08+Opinion+on+Virtual+Currencies.pdf>), the European Banking Authority (EBA) defines virtual currencies as a digital representation of value that is neither issued by a central bank or public authority, nor necessarily attached to a legal tender. VCs are accepted by natural or legal persons as a means of payment and can be transferred, stored or traded.

How it works

All VCs are based on the idea of a substitute currency, not issued by the state and limited in supply. Unlike money that can be printed in unlimited amounts by central banks, and unlike deposit money created by commercial banks, the creation of VC units takes place in strict accordance with a fixed mathematical protocol within a computer network. This process is also known as "mining".

Anyone interested can download a program to participate in the network and mine VCs, as long as their computer is powerful enough. The network operates on a peer-to-peer basis, meaning that all of its participants are generally treated as equals. There is no central entity to monitor or manage transactions or balances.

Vcs are assigned to traceable places in the network ("addresses"), which as a rule consist of randomly generated series of digits or numbers. The owners manage their VCs with pairs of a private and public key, which are used to authenticate transactions. All users can transfer their VCs among each other within the network, but they have to regularly exchange corresponding target addresses outside the network.

The VCs stored in specific places as well as all transactions made to date are publicly visible in a central file, or blockchain. Based on the places in the network, though, it is not visible which person is the actual owner of the VCs. Once carried out, transactions are generally irreversible. Apart from transferring VCs within the network, it is also possible to transfer places and keys among individuals physically on data carriers, for example.

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Queries for BaFin

In accordance with BaFin's legally binding decision on units of account within the meaning of section 1 (11) sentence 1 of the KWG, Bitcoins are financial instruments. Units of account are comparable to foreign exchange with the difference that they do not refer to a legal tender. Included are also value units which function as private means of payment in barter transactions and any other substitute currency that is used as means of payment in multilateral accounting on the basis of contracts under private law.

This legal classification applies in general to all VCs. What software they are based on or which encryption technologies they apply is immaterial in this respect.

By contrast, VCs are not legal tender and so are neither currencies nor foreign notes or coins. They are not e-money either within the meaning of the German Payment Services Supervision Act (Zahlungsdiensteaufsichtsgesetz – ZAG); they do not represent any claims on an issuer, as in their case there is no issuer.

The situation is different for digital means of payment which are backed by a central entity that issues and manages the units. Such companies usually carry out e-money business pursuant to section 1a of the ZAG (e-money).

Authorisation requirement

Just using VCs as a substitute for cash or deposit money to participate in exchange transactions as part of the economic cycle does not require authorisation. A service provider or supplier may receive payment for his or her services in VCs without carrying out banking business or financial services. The same applies to the customer. Equally, mining VCs in and of itself does not trigger an authorisation requirement as the "miner" does not issue or place the VCs. The sale of VCs, either self-mined or purchased, or their acquisition are generally not subject to authorisation.

However, under additional circumstances, a commercial handling of the VCs may trigger the authorisation requirement under the KWG (general Guidance Notice on authorisation). Failure to obtain authorisation generally constitutes a criminal offence under section 54 of the KWG. Typical business constellations are summarised below.

Authorisation requirements for platforms and exchanges

Commercial trading in VCs is mostly done via platforms, often called exchanges. These encompass a large number of different business models. In order to answer the question of whether or not authorisation is required, a distinction must be made between the transactions' technical execution and their individual configuration.

Those buying and selling VCs commercially in their own name for the account of others carry out principal broking services which are subject to authorisation. The purchase and sale of VCs is made for the account of others when the economic advantages and disadvantages of that business affect the principal. In addition, the activity must be similar enough to the broking services within the meaning of the German Commercial Code (Handelsgesetzbuch), although individual rights and obligations may deviate from those typical for broking services. In the case of VC platforms, the principal broking services that require authorisation exist when:

- the individual participants are authorised to give instructions to the platforms until the realisation of the orders by setting the number and price of the transactions,
- the individual participants are unaware of their transaction partners and the platform does not act as representative of the participants but rather in its own name,
- the economic advantages and disadvantages of the transactions affect the participants that transfer money to the platform's accounts or transfer VCs to their addresses, and
- the platform is obliged to account to the participants for the execution of transactions and to transfer acquired VCs.

If no principal broking services are carried out by platforms, they may instead be operating a multilateral trading facility. This brings together, in the system and in accordance with pre-determined provisions, multiple third-party buying and selling interests in financial instruments in a way that results in a contract for the acquisition of these financial instruments. This implies that there is a framework regulating the membership, trading in VCs among participants, and notifications regarding finalised transactions. There is no need for a trading platform in a technical sense. Multilateral means that the operator only brings together the parties of a potential transaction in VCs. Interest in purchase and sale may take the form of expressions of interest, orders and quotes. The existence of multiple parties means first and foremost that no brokering instruction is needed in individual cases. Under the framework, the interests must be brought together leading to the signing of the contract via software or protocols without the parties being able to decide in individual cases whether they want to enter into a VC transaction with a particular contracting party. It is irrelevant whether the contract is then executed within the system or not.

The existence of multilateral trading facilities is likely in particular in the case of platforms where sellers place VCs and set a price threshold above which a trade should be executed, or where sellers secure their transactions by a deposit in the form of VCs that are transferred to the platform but only released after the seller has confirmed the payment.

Where platforms offer region-specific paid directories of persons or undertakings offering VCs for sale or purchase, this usually constitutes a case of investment and contract broking.

Authorisation requirements for mining, purchase and sale

Providers that act as "currency exchanges" offering to exchange legal tenders against VCs or VCs against legal tenders carry out trading for own account. This is the case when VCs are not only mined, purchased or sold in order to participate in an existing market, but when a special contribution is made to create or maintain that market. Due to the additional service element, this then constitutes trading for own account that requires authorisation. This may be the case, for instance, when a person publicly advertises regular purchases and sales of VCs.

Although mining VCs in itself does not trigger an authorisation requirement, if mining pools offer shares in proceeds from mined and sold VCs on a commercial basis, for instance in exchange for computing power of the user, they generally are subject to authorisation.

Practical information

In practice, VC undertakings often did not offer detailed explanations as to how they work at all, or did so in a vague manner. In many cases, no general terms and conditions were provided, either. Authorisation requirement is a complex legal issue, in particular due to the technical specificities. Therefore, potential providers should early on obtain an assessment of their planned business activities in order to clarify whether they are subject to supervision by BaFin.

Providers that increase the level of risk the users of VCs are already exposed to are subject to financial supervision by law, as are traders in other financial instruments such as shares, derivatives and foreign exchange. BaFin's task is to ensure that the financial and organisational standards are met in business with customers and financial instruments, that unreliable providers are kept off the market and – in the interest of the customers and the German financial market – that appropriate measures to prevent money laundering are taken. Banks or financial services providers that already have authorisation pursuant to section 32 of the KWG may therefore also carry out transactions in VCs which they are already allowed to in, for instance, shares.

Additional information

More on this topic

Article

[Initial coin offerings: High risks for consumers](#)

News

[Consumer warning: the risks of initial coin offerings](#)

German version

[Virtuelle Währungen](#)

Publications on this topic

Article from 29 March 2018

Initial coin offerings: BaFin publishes advisory letter on the classification of tokens as financial instruments

For some time now, BaFin has been receiving an increasing number of queries enquiring whether tokens and virtual currencies (referred to as "tokens") marketed to investors in initial coin offerings (ICOs) are considered to be financial instruments. BaFin has now published an [advisory letter](#) in which it states its position on the regulatory classification of tokens in the field of securities ...

Article from 15 November 2017

Initial coin offerings: High risks for consumers

The acquisition of cryptocurrency coins – also referred to as tokens, depending on their form – as part of so-called "initial coin offerings" (ICOs) may result in substantial risks for investors. This is a highly speculative form of investment that is often not subject to existing capital market regulations. As is the case with most trends, the high level of public interest in ICOs is also ...

News from 9 November 2017

Consumer warning: the risks of initial coin offerings

BaFin wishes to point out that the acquisition of cryptocurrency coins – also referred to as tokens, depending on their form – as part of so-called "initial coin offerings" (ICOs) may result in substantial risks for investors. ICOs are a highly speculative form of investment. Investors should therefore be prepared for the possibility of losing their investment completely. As is the case with most ...

Article from 5 October 2017

Fintech - EBA and BCBS start consultations

The European Banking Authority (EBA) published a discussion paper [<https://www.eba.europa.eu/documents/10180/1919160/EBA+Discussion+Paper+on+Fintech+%28EBA-DP-2017-02%29.pdf>] on its approach to financial technology (fintech) in early August. In the paper, the EBA sets out the results of a mapping exercise on the European fintech sector, which it conducted among the national competent authorities in spring. Based on the results of the exercise, the EBA identified a number of issues for which it considers ...

Article from 4 January 2017

InsurTech: Innovative new companies create a stir in the insurance industry

The insurance industry's core processes have been changing steadily over the past few decades. From consulting, sales and distribution, and underwriting to portfolio management or claims settlement, little by little digitalisation has come to affect every major part of the industry. Today, the speed and intensity with which data can be analysed allows for a more risk-based setting of tariffs and ...

<https://www.bafin.de/dok/8054452>

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Applicant Name	Priya Sinha
Date of receipt	06/02/2018
Request Filed With	Department of Economic Affairs
Text of Application	Please see attachment
Request document (if any)	
Status	REQUEST DISPOSED OF as on 09/02/2018
Date of Action	<p>Reply:□ (1) The Committee held meeting on 12.4.18, 2.5.18, 19.5.18, 12.6.1 and 27.6 18.</p> <p>(2) The Chairman of the Committee submitted the Report to the Finance Minister in July, 2017.</p> <p>So far as the report and Minutes are concerned, they deal with policy issues of strategic importance and hence attracts Section 8(1)(a) of RTI Act, 2005.</p>

RESERVE BANK OF INDIA

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DPSS. CO. RIA SN. 2452/01.06.006/2017-18

07 March 2018

RTI Portal

SmtPriya Sinha

C7/601 PWO Housing Complex

Sector 43, Pin Code 122002

Haryana

Madam,

Application under Right to Information Act, 2005 - RBIND/R/2018/50433

Please refer to your application dated February 06, 2018 seeking certain information under the Right to Information Act, 2005.

2. The information is furnished in the Annex.

3. We would like to inform that the First Appellate Authority in Reserve Bank of India is Smt. Uma Shankar, Executive Director, Reserve Bank of India, Department of Payment and Settlement systems, 14th Floor, Central Office Building, Shahid Bhagat Singh Road, Fort, Mumbai - 400001. Appeal, if any, in respect of the above reply, should be preferred within 30 days to the First Appellate Authority.

Yours faithfully

SD

Central Public Information Officer Encl: As above

Sr. No	Information Sought	Reply
1	<p>As per the PIB Press Release dated 12 April 2017, an inter-disciplinary committee was constituted under the chairmanship of the Special Secretary (Economic Affairs) to examine the existing framework with regard to virtual currencies. This department has also been selected as a participant in the said committee. With regard to the same, you are requested to furnish the following information.</p> <p>1. Have deliberations by the aforementioned committee completed? If yes, then</p> <p>(a) How many sittings did the committee hold to deliberate on its mandate? Please provide the dates and minutes of each of these meetings.</p> <p>When and to whom was the final report containing the findings of the committee submitted? Please provide a copy of the final report.</p>	<p>As per Section 6(3) Right to Information Act, 2005 we have transferred this part to CPIO, Department of Economic Affairs, Ministry of Finance for direct reply to you.</p>
2	<p>Please provide a summary of the recommendations made by this department to the aforementioned committee.</p>	<p>No such information was provided by the Reserve Bank of India</p>

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13 March 2018

To G20 Finance Ministers and Central Bank Governors

G20 Finance Ministers and Central Bank Governors are meeting against a backdrop of strong and balanced global growth. This momentum is underpinned by a resilient global financial system that is the product of determined efforts by the G20 and FSB over the past decade.

The FSB's priorities under the Argentine Presidency are designed to build on that strong foundation to reinforce the G20's objective of strong, sustainable and balanced growth through:

1. Vigilant monitoring to identify, assess and address new and emerging risks;
2. Disciplined completion of the G20's outstanding financial reform priorities;
3. Pivoting focus from new policy development towards evaluating policies that have been implemented to ensure the reform programme is efficient, coherent and effective, and addressing any unintended consequences; and
4. Optimising how the FSB works to maximise its effectiveness by capitalising on its advantages as an efficient and responsive organisation, led by and dependent on the contributions and consensus of its members.

1. VIGILANT MONITORING OF EMERGING RISKS

The FSB regularly scans the horizon to identify and assess emerging risks through the bi-annual Early Warning Exercise conducted jointly with the IMF; candid and timely discussions of macro- financial developments at its Steering Committee and Plenary; expert member analysis; and structured analysis of trends and developments.

The recent sharp rise in financial market volatility from record lows crystallised some of the risks which the FSB and member authorities have been actively monitoring and addressing (including in a number of domestic stress tests). The proximate triggers of the short period of market turbulence in February were changing expectations of global growth and the inflation outlook, with associated implications for the evolution of market rates and sustainability of asset prices. Despite the size of some market moves, contagion was limited, and core markets and systemic infrastructure operated effectively throughout.

Such resilience of the financial system to shocks, whatever their source, underscores the importance of G20 reforms. Large banks are considerably stronger, more liquid and more focused. They are now subject to greater market discipline as a consequence of globally-agreed standards to end too-big-to-fail. A series of measures are eliminating toxic forms of shadow banking and are transforming the remaining activity into resilient market-based finance. Reforms to over-the-counter derivative markets are replacing a complex and dangerous web of exposures with a more transparent and robust system that better serves the real economy.

Crypto-assets

Responding to the concerns of members, the FSB has undertaken a review of the financial stability risks posed by the rapid growth of crypto-assets.

The FSB's initial assessment is that crypto-assets do not pose risks to global financial stability at this time. This is in part because they are small relative to the financial system. Even at their recent peak, their combined global market value was less than 1% of global GDP. In comparison, just prior to the global financial crisis, the notional value of credit default swaps was 100% of global GDP. Their small size, and the fact that they are not substitutes for currency and with very limited use for real economy and financial transactions, has meant the linkages to the rest of the financial system are limited.

The market continues to evolve rapidly, however, and this initial assessment could change if crypto-assets were to become significantly more widely used or interconnected

with the core of the regulated financial system. For example, wider use and greater interconnectedness could, if it occurred without material improvements in conduct, market integrity and cyber resilience, pose financial stability risks through confidence effects. To support monitoring and timely identification of emerging financial stability risks, the FSB will identify metrics and any data gaps.

Crypto-assets raise a host of issues around consumer and investor protection, as well as their use to shield illicit activity and for money laundering and terrorist financing. At the same time, the technologies underlying them have the potential to improve the efficiency and inclusiveness of both the financial system and the economy.

Relevant national authorities have begun to address these issues. Given the global nature of these markets, further international coordination is warranted, supported by international organisations such as CPMI, FATF and IOSCO.

The FSB will identify metrics for enhanced monitoring of the financial stability risks posed by crypto-assets and update the G20 as appropriate.

2. DISCIPLINED COMPLETION OF THE G20'S OUTSTANDING FINANCIAL REFORM PRIORITIES

The FSB is making significant progress on the G20's outstanding financial reform priorities, with a large number of initiatives on track to be completed by or before the Buenos Aires Summit.

The recent agreement on a package finalising the Basel III banking reforms marks completion of one of the most significant areas of post-crisis policy design. Emphasis will now be on full, timely and consistent implementation in order to secure the benefits of a resilient international banking system, equipped with the regulatory certainty to lend and invest across borders. Attention can now be dedicated to the small number of remaining areas where G20 financial reform priorities need to be completed.

De-risking in correspondent banking relationships has threatened the ability of some emerging market and developing economies to access the international financial system, with consequences for financial inclusion, and it risks driving flows underground. The FSB is on track to deliver on all elements of its correspondent banking Action Plan by the Buenos Aires Summit, specifically regular production of data on trends; clarification of regulatory expectations; supporting domestic capacity-building through technical assistance; and stronger tools for due diligence by banks. The FSB welcomes the Wolfsberg Group initiative, which represents a powerful and timely private sector solution to help clarify what major international banks expect correspondent banks to demonstrate in order to more safely and reliably access international banking services.

The G20 has also tasked the FSB with identifying the barriers that remittance providers face in accessing banking services. This was motivated by specific concerns about impacts of de-risking on the remittance sector and the consequences for developing countries, where remittance flows are a key source of funds. In response, the FSB has identified four strategic recommendations for national authorities in the areas of consistency of regulatory frameworks, effectiveness of supervision, application of technology, and technical assistance.

By the Buenos Aires Summit the FSB will deliver a final report on policy development under its Action Plan. After this, relevant standard-setting and international bodies, under the coordination of the FSB, will pick up the mantle of monitoring implementation of the Action Plan by national authorities.

- For this March G20 meeting, the FSB has delivered a progress report on the correspondent banking Action Plan. A final report will be issued by the Buenos Aires Summit.
- For this March G20 meeting, the FSB has delivered four strategic recommendations for improving the access of remittance providers to banking services. The FSB will deliver a report on the implementation of these recommendations to the G20 Finance Ministers and Central Bank Governors in July 2019.

The FSB's coordinated workplan to reduce misconduct in the financial sector has made important strides over the past year in promoting incentives for good behaviour through a variety of tools including: standards and codes, such as the Global FX Code; IOSCO's toolkit of measures on wholesale market conduct; and the FSB's principles for sound compensation practices. The FSB will shortly complete the final element of its work when it publishes a toolkit for firms and supervisors on the use of governance frameworks to mitigate misconduct risk. This report addresses three areas: i) dealing with those individuals with a history of misconduct who move between firms (so-called 'rolling bad apples'); ii) strengthening senior-level accountability by being clear about responsibilities within firms; and iii) examining the role of corporate culture in misconduct. In addition, guidance on the use of compensation tools to promote good conduct has now been published in final form and is to be followed up by recommendations on national data collection on compensation and conduct. G20 national authorities can now consider how they can best draw on this work to strengthen and maintain conduct in their own financial sectors.

- The FSB will publish later this month a toolkit for firms and supervisors on how governance frameworks can be used to address misconduct risk.

Market-based finance provides new sources of funding and investment, promotes international capital flows, reduces reliance on bank funding and brings welcome diversity to the financial system. The FSB's latest annual monitoring report shows sustained growth in non-bank financial activity (with the activity-based, narrow measure of shadow banking growing by 7.6% in 2016 to \$45 trillion for the 29 jurisdictions covered, including for the first time China and Luxembourg). It is vital that resilience of non-bank finance is promoted and maintained as it evolves. To this end, the FSB's 2017 recommendations to address structural vulnerabilities from asset management activities will be made operational by IOSCO this year. In February, IOSCO issued final recommendations to improve liquidity risk management practices in open-ended funds. In addition, IOSCO is developing consistent measures of leverage

within funds. Once implementation is progressed, IOSCO and FSB will assess if these recommendations have been implemented effectively, and the FSB will report back to the G20.

- By the July 2018 G20 meeting of Finance Ministers and Central Bank Governors, IOSCO will issue a consultation report with proposals for developing comparable leverage measures for funds, as part of the operationalisation of the FSB's recommendations on structural vulnerabilities from asset management activities.

The extent to which the central clearing of OTC derivatives transactions supports the G20's efforts to reduce systemic risk depends on the resilience and resolvability of central counterparties (CCPs). The FSB is following up on its 2017 Guidance on Central Counterparty Resolution and Resolution Planning with an assessment, based on further analysis and experience gained in resolution planning, of whether there is a need for additional guidance on the financial resources available to support CCP resolution and the treatment of CCP equity in resolution.

- By the Buenos Aires Summit, the FSB will determine whether there is need for any additional guidance on the treatment of CCP equity in resolution and financial resources to support CCP resolution.

To respond to the risks posed to the financial sector from cyber incidents, the FSB is building on the 2017 stocktake of members' existing practices on cyber security, by developing a common lexicon to support consistency in the work of the FSB, standard-setting bodies, authorities and private sector participants. The FSB has also undertaken further analysis to improve understanding of the transmission channels through which a cyber incident could affect the financial system.

- By the Buenos Aires Summit, the FSB will deliver a common international lexicon of cyber security terms, to support the work of the FSB, standard-setting bodies, authorities and the financial sector.

To mitigate climate-related financial risks, the private-sector-led Task Force on Climate-related Financial Disclosures (TCFD) is now focused on promoting companies' voluntary implementation of its recommendations, which were issued for the Hamburg Summit. Companies from a broad range of sectors are beginning to make TCFD disclosures. The financial sector will play an important role in fostering wider adoption and raising standards, so it is notable that financial institutions responsible for over \$80 trillion of assets have signalled their support, including 20 globally-systemic banks, eight of the top 10 asset managers, the world's leading pension funds and insurers, major ratings agencies and accounting firms, and the two dominant shareholder advisory services companies.

- By the Buenos Aires Summit, the TCFD will report on voluntary implementation, focusing on areas of good practice to foster wider adoption.

3. **PIVOTING TO POLICY EVALUATION TO ENSURE THE REFORM PROGRAMME IS EFFICIENT, COHERENT AND EFFECTIVE**

As its work to fix the fault lines that caused the financial crisis draws to a close, the FSB is increasingly pivoting away from design of new policy initiatives towards dynamic implementation and rigorous evaluation of the effects of the agreed G20 reforms. The objective is to assess whether reforms are operating as intended, and to identify and deliver adjustments where appropriate, without compromising on either the original objectives of the reforms or the agreed level of resilience. This dynamic implementation of the G20 reforms will ensure that reforms remain fit for purpose amidst changing circumstances. The new policy evaluation framework delivered to the 2017 G20 Summit is being applied for the first time during the Argentine Presidency, with the FSB reporting on two evaluations and setting priorities for future evaluation topics.

The first evaluation, on financial intermediation, supports the Argentine G20 Presidency's focus on infrastructure investment. The aim in 2018 is to assess how financial reforms affect the availability and cost of infrastructure finance, and whether, whilst strengthening the financial system, reforms have had unintended consequences on financial intermediation. The FSB will deliver the evaluation on infrastructure to the Argentine G20 Summit. In May 2018 work will also begin evaluating the effects of financial regulation on financing for SMEs, with a view to delivering that assessment under the Japanese G20 Presidency.

- By the Buenos Aires Summit, the FSB will deliver its report on the effects of financial reforms on the financing of infrastructure investment.
- By the 2019 Leaders' Summit, the FSB will deliver to the Japanese Presidency a report evaluating effects, including any unintended consequences, of financial regulation on access to finance for SMEs.

The second evaluation concerns the effects of the overall set of post-crisis reforms on incentives for market participants to centrally clear OTC derivatives. The FSB's 2017 review of the effectiveness and broader effects of the G20's reforms of OTC derivative markets found that meaningful progress has been made toward meeting the G20 objectives – particularly mitigating systemic risk – and that implementation was well progressed. However, the review also noted some concerns about the interactions of the broader set of post-crisis reforms on incentives for central clearing, and questions about whether there are unintended consequences, in particular relating to the costs and availability of clearing for end-users. The second evaluation is being undertaken together with the SSBs as well as in coordination with a BCBS review of the effects of the leverage ratio on client clearing. The results of these reviews will inform any possible decisions about whether and how to adjust the relevant post-crisis regulations.

- By the Buenos Aires Summit, the FSB will deliver the report evaluating the effects of reforms on incentives to centrally clear OTC derivatives.

To support the FSB's increased focus on evaluation work over coming years, we are developing a forward schedule of additional evaluations, based on proposals from

FSB members. This already includes a plan to evaluate the effects of the reforms aimed at ending "too-big-to-fail" by 2020. The FSB is also developing a new framework for collecting data from financial firms to support policy evaluation, which will enhance the FSB's ability to conduct incisive and rigorous analysis while upholding high standards of data protection and governance.

4. **OPTIMISING HOW THE FSB WORKS IN ORDER TO MAXIMISE ITS EFFECTIVENESS.**

The FSB has developed the international reforms necessary to fix the fault lines that caused the financial crisis through a collaborative, consensus-based approach that relies on the expertise of its members in order to deliver efficient and decisive analysis and action. The success of the FSB is a testimony to the skill and determination of its members and the quality of their contributions, supported by a small secretariat of around 30 people, many of whom are on posting from member authorities. This model allows the FSB to be in constant touch with member priorities, to respond nimbly to changing circumstances and emerging risks, to focus resources on the issues that matter most, and to convene those with the authority to take action.

To make sure it is fit for the next phase, the FSB's membership is undertaking a thorough review of how the FSB works. The pivot from policy development to implementation and evaluation is already happening with, over the course of 2017, the number of FSB working groups having fallen by 25% as those that have completed their policy work are disbanded. To seek ways to further improve the way the FSB works, the review will consider FSB transparency, consultation, mechanisms for setting our strategic agenda, and how to ensure discipline and efficiency in our member-led groups charged with analysis and policy development, implementation and evaluation.

In this way the FSB will continue to promote strong, shared international standards; dynamic implementation; and cooperation in financial regulation and supervision – all of which are essential building blocks to maintain a resilient, open international financial system, which supports the G20 objective of strong, sustainable and balanced growth.

S/D
Yours sincerely
MARK CARNEY

Annex A: Priority G20 deliverables from the FSB during the Argentine G20 Presidency

Deliverable	Topic	Timing
BCBS finalisation of Basel III	Building resilient financial institutions	Completed in December 2017
Correspondent banking progress reports	Correspondent banking	March 2018 and Summit
FSB report and recommendations on remittance firms' access to banking services	Correspondent banking	March 2018
FSB toolkit on governance measures to address misconduct	Misconduct risk	Publication in March 2018 and delivery to April 2018 meeting
FSB evaluation of incentives to centrally clear OTC derivatives	Implementation and evaluation of reforms	Summit (with emerging findings in July)
FSB evaluation on the effects of financial reforms on the financing of infrastructure investment	Implementation and evaluation of reforms	Summit (with emerging findings in July)
IOSCO consultative report on consistent measures of leverage in funds	Transforming shadow banking into resilient market-based finance	July 2018
FSB assessment of the need for further guidance on the treatment of CCP equity in resolution and on the adequacy of CCP financial resources in resolution	Ending too-big-to-fail	Summit
FSB financial sector cyber security lexicon	Financial technology and cyber risk	Summit
Report on implementation of recommendations of the Task Force on Climate-related Financial Disclosures	Climate-related financial risk disclosures	Summit
FSB fourth annual report on implementation and effects of reforms	All post-crisis reform areas	Summit
FSB Chair's letter to G20 Leaders	Priorities and deliverables	Summit

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April 05, 2018

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening financial markets; improving currency management; promoting financial inclusion and literacy; and, facilitating data management.

1. Regulation and Supervision**1. Mandatory Loan Component in Working Capital Finance**

With a view to promoting greater credit discipline among working capital borrowers, it is proposed to stipulate a minimum level of 'loan component' in fund based working capital finance for larger borrowers. Draft Guidelines are being issued for feedback in this regard.

2. Countercyclical Capital Buffer

The framework on countercyclical capital buffer (CCCB) was put in place by the Reserve Bank in terms of guidelines issued on February 5, 2015 wherein it was advised that the CCCB would be activated as and when the circumstances warranted, and that the decision would normally be pre-announced with a lead time of four quarters. The framework envisages the credit-to-GDP gap as the main indicator, which may be used in conjunction with other supplementary indicators, viz., the Credit-Deposit (C-D) ratio for a moving period of three years (given its correlation with the credit-to-GDP gap and GNPA growth), industrial outlook (IO) assessment index (with due note of its correlation with GNPA growth), and interest coverage ratio (noting its correlation with the credit-to-GDP gap). Based on the review and empirical testing of CCCB indicators, it has been decided that it is not necessary to activate CCCB at this point in time.

3. Deferment of Indian Accounting Standards (Ind AS) implementation

Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs), were required to implement Indian Accounting Standards (Ind AS) from April 1, 2018 vide our Circular dated February 11, 2016. However, necessary legislative amendments – to make the format of financial statements, prescribed in the Third Schedule to Banking Regulation Act 1949, compatible with accounts under Ind AS – are under consideration of the Government. In view of this, as also the level of preparedness of many banks, it has been decided to defer implementation of Ind AS by one year by when the necessary legislative changes are expected.

4. Storage of Payment System Data

In recent times, the payment ecosystem in India has expanded considerably with the emergence of new payment systems, players and platforms. Ensuring the safety and security of payment systems data by adoption of the best global standards and their continuous monitoring and surveillance is essential to reduce the risks from data breaches while maintaining a healthy pace of growth in digital payments.

It is observed that at present only certain payment system operators and their outsourcing partners store the payment system data either partly or completely in the country. In order to have unfettered access to all payment data for supervisory purposes, it has been decided that all payment system operators will ensure that data related to payment systems operated by them are stored only inside the country within a period of 6 months. Detailed instructions will be issued in this regard within one week.

II. Financial Markets

5. Access for Non-residents into the IRS Market

Rupee Interest Rate Swap (IRS) market, while it is the most liquid among interest rate derivative markets, still lacks depth to enable large banks to manage risks. Thin participation and consequent absence of divergence of views result in pricing inefficiencies, which further discourages participation. At the same time, it is understood that there is an active market for Rupee interest rate swaps offshore. Also, Indian market has witnessed increasing participation from non-resident players like FPIs in debt. With a view to develop a deep IRS market that accommodates divergent participants, it is proposed to permit non-residents access to the Rupee IRS market in India. Detailed draft regulation will be issued for public comments by end of May 2018.

6. Introduction of Rupee Swaptions

In December 2016, RBI introduced Rupee Interest Rate Options (IRO), following the recommendations of the P.G. Apte Working Group. Only plain vanilla Interest Rate Options were allowed initially. Subsequently, market participants including corporates have expressed the need for swaptions to effectively manage interest rate risk. Fixed Income Money Market and Derivative Association of India (FIMMDA) has conveyed a similar request on behalf of its

members. It is, therefore, proposed to permit interest rate swaptions in Rupees so as to enable better timing flexibility for those seeking to hedge interest rate risk. The directions will be issued by end of April 2018.

7. Review of Separate Trading of Registered Interest and Principal Securities (STRIPS) directions

The Reserve Bank introduced the Separate Trading of Registered Interest and Principal Securities (STRIPS) in Government Securities in April, 2010. After some initial interest, the product did not find much favour with the market. With a view to encouraging trading in STRIPS by making it more aligned with market requirements and to meet the diverse needs of the investors, it is proposed to review these guidelines. The revised directions will be issued by end of April 2018.

8. Legal Entity Identifier (LEI) for Non-individual Market Participants

The Legal Entity Identifier (LEI) code has been conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. The LEI is a 20-character unique identity code assigned to entities who are parties to a financial transaction. RBI has already implemented the LEI code for all market participants in Over-the-Counter (OTC) derivative products in interest rate, currency and credit markets. It was also made applicable for large corporate borrowers. Continuing with this endeavour to improve transparency in financial markets, it is proposed to implement the LEI mechanism for all financial market transactions undertaken by non-individuals, in interest rate, currency or credit markets. Draft directions will be issued by end of April 2018.

9. Introduction of Single Master Form for Reporting of Foreign Direct Investment in India

Foreign Direct Investment in India, on a repatriable basis, is made by non-residents through eligible instruments such as Equity Shares, Compulsory Convertible Preference shares, Compulsorily Convertible Debentures, Share Warrants etc., issued by the investee company or by contributing to the capital of a Limited Liability Partnership (LLP). At present, the reporting of the above transactions resulting in foreign investment are in a disintegrated manner across various platforms/modes. The Reserve Bank plans to introduce an online reporting by June 30,

2018 via a Single Master Form which would subsume all reporting requirements, irrespective of the instrument through which the foreign investment is made.

10. Reporting by Authorised Dealers

Currently, transactions under Liberalised Remittance Scheme (LRS) are being permitted by Authorised Dealer (AD) banks based on the declaration made by the remitter. As such, it is difficult for the AD banks to monitor/ensure that a remitter has not breached the prescribed limit by approaching multiple AD banks. With the objective of improved monitoring and ensuring compliance with the LRS ceilings, it has been decided to put in place a system for daily reporting of individual transactions by banks. This will, *inter alia*, enable the AD Banks to view the remittances already sent by an individual before allowing further remittance thus obviating the possibility of a remitter breaching the LRS limit by approaching multiple AD banks. Detailed instructions in this regard will be issued shortly.

III. Currency Management

11. Norms for Cash-in-Transit (CIT) Industry and Promotion of Self-Regulatory Organisation by CIT Industry

In the Statement on Developmental and Regulatory Policies of February 7, 2018, the Reserve Bank had announced a time frame to implement the recommendations of the two high level inter-agency committees constituted by it to suggest measures for improvement of currency management, including security of movement of treasure. The Committees, *inter alia*, had recommended stipulation of minimum standards for cash logistics industry and promotion of a Self-Regulatory Organisation (SRO) for the industry.

(i) Under the 'Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services' issued by the Reserve Bank in November 2006, cash management and logistics at the bank level has largely been outsourced to Cash-in-Transit (CIT) companies and Cash Replenishment Agencies (CRAs). There is, however, no regulation or supervision for this industry at present. With a view to promote healthy growth of the sector and mitigate risks associated with movement of currency through these agencies, Reserve Bank will require the banks to ensure that the CIT companies/CRAs engaged by them meet minimum prescribed standards. The instructions to the banks in this regard will be issued within a month.

ii) In order to ensure compliance with minimum standards for the CIT industry and other applicable laws, the Bank will encourage the cash management industry to promote a Self-Regulatory Organisation (SRO) for undertaking development work along with self-regulation of the industry, till such time that an appropriate legislative structure is put in place.

12. Central Bank Digital Currency

Rapid changes in the landscape of the payments industry along with factors such as emergence of private digital tokens and the rising costs of managing fiat paper/metallic money have led central banks around the world to explore the option of introducing fiat digital currencies. While many central banks are still engaged in the debate, an inter-departmental group has been constituted by the Reserve Bank to study and provide guidance on the desirability and feasibility to introduce a central bank digital currency. The Report will be submitted by end-June 2018.

13. Ring-fencing regulated entities from virtual currencies

Technological innovations, including those underlying virtual currencies, have the potential to improve the efficiency and inclusiveness of the financial system. However, Virtual Currencies (VCs), also variously referred to as crypto currencies and crypto assets, raise concerns of consumer protection, market integrity and money laundering, among others.

Reserve Bank has repeatedly cautioned users, holders and traders of virtual currencies, including Bitcoins, regarding various risks associated in dealing with such virtual currencies. In view of the associated risks, it has been decided that, with immediate effect, entities regulated by RBI shall not deal with or provide services to any individual or business entities dealing with or settling VCs. Regulated entities which already provide such services shall exit the relationship within a specified time. A circular in this regard is being issued separately.

IV. Financial Inclusion and Literacy

14. Tailored Financial Literacy Content

A 'one size fits all' approach for imparting financial education to various target groups is sub-optimal. Financial education contents sought to be delivered to diverse target groups need to be customized to meet their typical target groups. The Reserve Bank is in the process of developing tailored financial literacy contents for five specified target groups viz. Farmers, Small

entrepreneurs, School children, Self Help Groups and Senior Citizens, that can be used by the trainers. The contents in the form of five booklets will be released within 15 days.

15. Revamping of the Lead Bank Scheme

The Lead Bank Scheme was started to ensure economic development of the districts/states by establishing coordination between the banks and government agencies. The Scheme was last reviewed by a "High Level Committee" under Smt Usha Thorat, erstwhile Deputy Governor of Reserve Bank of India, as the Chairperson in 2009. In view of several changes that have taken place in the financial sector over the years, Reserve Bank of India had constituted a "Committee of Executive Directors" of the Bank to study the efficacy of the Scheme and suggest measures for its improvement. The Committee has since submitted its recommendations and it has been decided to realign the Lead Bank Scheme based on the recommendations to make it more relevant. Instructions on the revised scheme would be issued to the banks within 15 days.

V. Data Management

16. Creation of RBI Data Sciences Lab

It is critical for a full-service Central Bank, such as the RBI, with diverse responsibilities – inflation management, currency management, debt management, reserves management, banking regulation and supervision, financial inclusion, financial market intelligence and analysis, and overall financial stability – to employ relevant data and apply the right filters for improving its forecasting, nowcasting, surveillance and early-warning detection abilities that all aid policy formulation. In the backdrop of ongoing explosion in information gathering, computing capability and analytical toolkits, policy making benefits not only from data collected through regulatory returns and surveys but also from large volumes of structured and unstructured real-time information sourced from consumer interactions in the digital world.

Accordingly, it has been decided to gainfully harness the power of Big Data analytics by setting up a Data Sciences Lab within the RBI that will comprise experts and budding analysts, internal as well as lateral, who are trained *inter alia* in Computer Science, Data Analytics, Statistics, Economics, Econometrics and/or Finance. It is envisaged that the unit will become operational by December 2018.

Jose J. Kattoor Press Release : 2017-2018/2642 Chief General Manager

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