TRANSPARENCY REPORT

October 2022 – March 2023

wazirx

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Report Highlights

The 4th Transparency Report focuses on WazirX's efforts to create a robust and user-friendly platform for engagement with virtual digital assets. We undertook a user feedback heavy approach where Telegram, Discord, and Twitter were used to understand the sentiment of consumers.

We continued to scale our user support system with automated chat bots, an in-house team, and cutting edge technology to ensure customer satisfaction. We have engaged in over 3,96,126 user interactions during this period. Out of our latest developments in the app and website, two of the features have been launched to improve trading experience of our users - the 'Price Suggestion' feature based on order book instead of trade history in spot and P2P markets, and ability to deposit INR to WazirX through the INR deposit feature which was resumed.

WazirX also maintained its record of 100% compliance rate to ensure the adoption of Virtual Digital Assets in a secure environment. The team collaborated with Indian and Foreign LEAs to identify suspicious transactions, suspected frauds, and identity thefts. Besides that, with the help of third party transaction monitoring tools, WazirX blacklisted over 2431 accounts before verifying transactions that were deemed unlawful. We also continued to proactively report suspicious transactions to law enforcement agencies such as the Financial Intelligence Unit, India (FIU-IND).

WazirX announced the publishing of its Proof of Reserves to promote full transparency in India's crypto ecosystem. It made its wallet addresses, list of exchanges, and an independent Proof of Reserves report available to the public, and provided reassurance to customers that their funds and virtual digital assets remain safe, with enough liquidity to serve the customers' withdrawal requests.

Introduction

Keeping up with its record of maintaining transparency, coordinating with law enforcement establishments, and providing a secure trading ecosystem for investors in the country, WazirX brings you the fourth version of the Transparency Report.

This report covers an overview of initiatives that the company took during the months of October 2022 to March 2023 to safeguard users in the virtual digital asset (VDA) ecosystem. It also includes details on requests for user data, content, and account restrictions by Indian and Foreign law enforcement agencies.

During the above-mentioned time period, 431 requests were received from Law Enforcement agencies (LEA). 46 requests were from Foreign LEAs and 385 requests from Indian LEAs.

All of these requests pertained to matters related to account blocking, suspected criminal proceedings, investigation, and information was sought from WazirX as to whether such accused had dealt in Crypto through our platform. WazirX promptly provided all information as sought, and our compliance rate in record timeliness and accuracy was 100%. Apart from that, blocking of over 2431 accounts was also initiated based on our internal transaction monitoring process and/or directives from the LEAs.

In recent times, WazirX, as a member of the Bharat Web3 Association, participated in regulatory developments and discussions, collaborated with stakeholders, and continued to focus on awareness initiatives. WazirX also focussed on incentivising the community through Learn to Earn campaigns during this period. WazirX also engaged with the media to share their insights about developments in the regulatory environment of Crypto in the country.

WazirX continued to proactively report suspicious transactions to law enforcement agencies such as the Financial Intelligence Unit, India (FIU-IND). The team reported transactions of suspicious nature, wherein the trading volumes of users were not aligned with individual ITR/financial status/income, transactions by users were deemed to be high-risk ones as per alerts received from third-party forensic tools, and also such users

who did not provide the information/clarifications sought as regards to the source of funds or income proof.

⚖️ Policy and Legal Composition

At WazirX, we are diligent in protecting our stakeholders' personal information, transactional data, and financial data. We also maintain diligence and transparency while catering to information requests from government and law enforcement agencies.

- Our policy and legal team is well equipped with all resources to comply with concerned authorities and inspect any requests received from them
- Internal systems, processes, and protocols are carefully reviewed and modified on a regular basis to keep the system updated according to incoming requests
- Our user agreements/terms and conditions are due to bind the user to provide any information as may be sought by us in connection with their account/transactions and share any information/details of their account/transactions with LEAs if demanded

Partnership with Intelligence firms

WazirX's ongoing collaboration with third-party forensic tool service providers such as TRM Labs and Chainalysis has continued to make transaction monitoring and investigation an easy, smooth, and efficient process. The partnership has sustained the compliance initiatives of the platform and enabled us to maintain our record of speedy responses to LEAs.

👆 Investor Protection

KYC Authentication
- WazirX is committed to ensuring that thorough KYC norms are followed for onboarding customers on its platform. We block users who do not meet the KYC scrutiny/verification criteria
- To ensure that only legitimate users access our platform, access is allocated only to verified users who are identifiable with KYC documents. Processes are in place to

allow money transfers from the user-owned whitelisted & linked bank account. The bank whitelisting works as a secondary KYC verification as well.

- We have started masking Aadhar images submitted by users during KYC
- We monitor for fraud/document deficiency/tampering of records, and discourage customers on our platform who are suspected to be associated with these activities.
- One customer can have only one account with us (using a particular KYC credential such as PAN, Aadhaar etc) and the system would not permit an already registered user to once again open an account.

KYC Verification

WazirX's KYC terms and processes are available on the platform publicly for prospective users to refer to. Because of this, for every transaction, WazirX is able to produce the KYC details of the relevant user.

Bank Verification

Bank verification works as the second layer check to ensure that the user is a genuine entity. We use the 'Penny Drop' technique wherein a token amount (Rs. 1) is deposited in the User's bank account proposed to be registered with us, and depending on the output file of the bank, it is checked if the name credentials match with the respective user. Bank transfers are only available for whitelisted accounts.

2 Factor Authentication (2FA) and Login

To ensure there is safety and no misuse, we have given our users 2 options for setting up a 2 factor authentication process**:**

- 2FA via SMS OTP
- 2FA via Authenticator app - Google Authenticator, Authy (More Secure)

Our support team identifies accounts which should be blocked based on suspicious trading activity. Thereby users are blocked from the system.

Flow of Transaction for a Centralized Crypto Exchange

Step 1 - User registers on the exchange using an email ID.

Step 2 - User submits KYC documents: PAN card and address proof (Compulsory Step - User cannot go forward without this).

Step 3 - The system at the back end checks national database through third-party verification agencies.

Step 4 - Photo is captured from the app and is matched against the KYC documents. A live photo (live selfie) is taken to ascertain against fake photos being submitted and also to ensure that a living/existing person is opening the account.

Step 5 - Bank verification happens after the user enters the Bank and/or UPI ID. The check is done by the penny drop testing and also, details are matched against the PAN Data submitted in the above steps. Here, API calls happen between WazirX and payment partners who facilitate the penny drop service post, which the Bank/UPI is marked verified.

Step 6 - Only after these steps are done can the user transfer the money to transact on the platform either through a bank account or an aggregator's account. A verification is again done to check the prima facie legitimacy of the source account and whether it is in India or not.

Step 7 - At this stage, a very small percentage of users also directly bring their VDAs to trade on the platform. They might have had VDAs through airdrops or mining or from trading on another platform.

Step 8 - With respect to P2P trades, users can purchase USDT with INR. With the USDT in their account, they can buy ETH, BTC, or any other VDA. The buyer's order is matched with the seller's order placed in the order book. The buyer receives the required VDA and the seller receives the USDT after the trade execution. This is done via the exchange open order book concept.

Step 9 - The user can HODL the crypto or can sell it and withdraw the money out to his/her linked bank account in the form of INR.

Step 10: As of November, users have been given the option to charge or update their phone number or email ID within the app

Customer Support

- To enhance user experience, address user queries, and increase touchpoints, we have created multiple channels. These include chatbots and in-house customer support teams. We upscaled our teams and technology as there is a need for user support at different stages - from account setup to individual trades and beyond.
- For assistance, we have dedicated support teams across chat, email, and social media who have engaged in over 3,96,126 user interactions which has resulted in high customer satisfaction scores.

User Support

WazirX also verifies user details with the National Securities Depository Limited (NSDL) (government) database based on the PAN. We also check the authenticity of the ID uploaded as address proof through third-party verification agencies.

Post KYC verification, users can transact and trade VDAs on the platform. There could be one or more reasons that KYC verification may not be approved, and users can appeal through our 24X7 Support page - https://support.wazirx.com/

The most common reasons for rejection noticed are:
- **Details Mismatch** - When user's details like name, address, and ID Card number do not match the KYC documents submitted, KYC is rejected.
  Here, as a point of note for users, we suggest cross-checking all details before submitting.

- **Duplicate Account** - KYC is rejected when a user attempts to create an account on WazirX with previously submitted or identical details (of another WazirX account). A user can have only one individual account. However, he/she can be an authorized signatory in other accounts in the case of corporates.

WazirX app and website technical updates during October to March

As mentioned above, we have upscaled our teams and technology to assist our users. Because of this, we have:
- Increased ticket handling adeptness.
- Enabled bots to handle straightforward deposit tickets (i.e., in an automated fashion), to increase efficiency.
- Transitioning from Voice Support to Chat Support for a proactive resolution process
- Increased the processing speed of Standard Deposit Refunds

- Launched 'Price Suggestion' feature for users based on order book instead of trade history in spot and P2P markets
- WazirX now supports D/W via the BSC chain. Currently 20+ tokens have BSC support, more will be enabled.
- All operations related to sub-accounts can now be managed via SAPIs
- Users were able to deposit INR to WazirX through the INR deposit feature which was resumed
- Launched the 'Nominee feature' which enables users to add their loved ones as nominee

👮 Law Enforcement Requests

Nature of Requests

All requests received from Indian as well as Foreign Enforcement Agencies were related to investigations from suspected criminal proceedings.

Suspension/Blocking of Users Accounts

Suspension/Blocking of a user's account is subject to our terms and conditions i.e., when there is a violation of policies, deficient or suspicious KYC, or if we notice our platform is being used for illegal activities, we suspend/block the account of the user. We also have systems to monitor abnormal transactions done by users, flag off their related accounts, and identify other suspicious behavior so that these transactions can be reported to LEA if deemed fit.

Our compliance rate has been 100% for providing information/records to LEAs and also for abiding by their directives.

Turnaround Time

The recommended statutory Turnaround Time (TAT) for responding to the Law Enforcement Agencies (LEA) requests is up to 72 hrs from the time a request is received. However, with the help of efficient communication channels, WazirX clocked an average TAT as miniscule as 25 minutes for sending the first cut reply.

Process for Raising a Law Enforcement Request

To submit a Law Enforcement request under relevant provisions of law, the requester

must be a law enforcement agent or government official authorized to:
- Gather evidence in connection with an investigation, or
- Make a formal law enforcement request.

The following set-up is provided to law enforcement agents or government officials looking to obtain information from WazirX, in accordance with law, to gather evidence in connection with an ongoing legal proceeding.

Procedure:
- **Email request**: The requester can send an email to legal@wazirx.com from the official email ID of the law enforcement agency along with a duly authorized written request.
- **Scrutiny**: This email is scrutinized along with the details of the complaint, investigating officer, and seal of the agency.
- **Action**: If convinced with the scrutiny, appropriate action, as requested, is initiated from our end.

Some of the Indian and Foreign Law Enforcement Agencies that WazirX has worked with during this period are: the National Investigation Agency (NIA), Enforcement Directorate, State Cyber Crime Cells, Odisha Vigilance Department, Special Task Force, Bhopal Police, WB Police, Maharashtra Police, Crime Branch, Toronto Police Department, Police Department Dortmund, New York County District Attorney, Burlington Police, California Police Department, Florida Police, etc.

Requests received from Law Enforcement Agencies
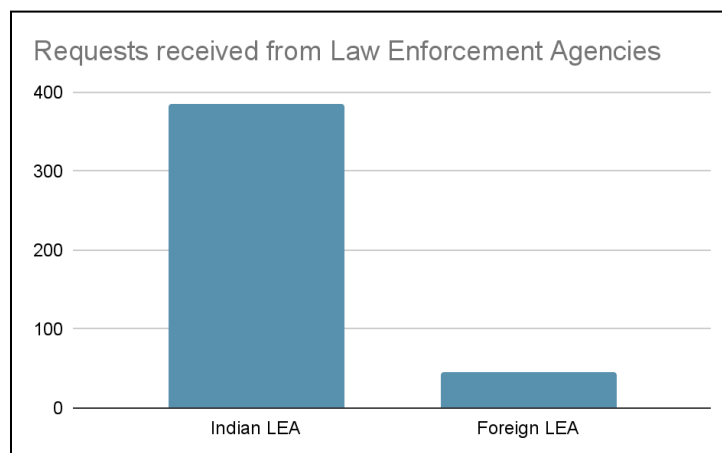
🛑 Fraud Detection and Prevention

With our regular coordination with LEAs and further analysis of the received requests, we can detect many nefarious activities in the VDA space. Most of the illegal transactions for which inquiries were sent, were fraudulent activities with VDAs

Proactive Collaboration

In order to boost better engagement and collaboration with LEAs, WazirX has initiated a mechanism for proactive reporting of suspicious transactions to law enforcement. The team shares details of accounts with suspicious transactions and also when assets are misaligned with individual ITR with the appropriate LEA. This reporting is done for both accounts deemed to be high-risk ones as well as regular users not abiding by protocol.

The team receives an alert from third party tools on every suspicious transaction, after which the account is blocked, and investigations related to fund sources, transfers, bank documents, and ID checks are carried out. Users are notified in case additional documentation is required to unblock the account. Up to 3 reminders are given before the account is blocked for a longer period.

📊 Building on our Transaction Monitoring Foundation

Consistent quality and risk monitoring policies

Along with robust KYC and AML policies, our continued collaboration with third-party forensic tool providers such as TRM Labs and Chainalysis has augmented our compliance and monitoring capabilities enabling us to track transactions continuously and investigate any suspicious activities.

- **Continuous Transaction Monitoring**: For this, every transaction's hash is passed to TRM's API, and aspects of the transaction, including the sender and recipient addresses, are screened for risk indicators. In the case of risk detection, an alert is triggered and logged into a portal. It is then reviewed and assigned to an investigator if necessary.

- **Investigations into Suspicious Activities**: If screening and monitoring systems trigger a manual review, compliance investigators use forensic tools to investigate in a more detailed manner. The transaction history and off-chain affiliations of interest are looked into.

Strategically embedding the use of data through digital monitoring capabilities

WazirX's integration of TRM labs in its transaction monitoring system and the generating data to regulatory authorities and assisting law enforcement agencies has been able to sustain a strong monitoring system besides the following:

- Payments fraud intelligence
- Audit trail maintenance
- Improved TAT for compliance personnel
- Improved data quality and architecture
- Knowledge sharing capabilities.

🛡️ Policy Outreach

WazirX has continued its self-regulatory mechanism to promote VDAs in a responsible way. The mandated self-regulation also had industry-wide consent for educating existing users and augmenting awareness about VDA trading for prospective users to have their own strong understanding.

Collaborations

Awareness of anti money laundering policy: WazirX shared its anti money laundering policy in detail through a blog post in light of perceived illicit activities with VDAs that was prevalent in the country. The blog was published with the objective of educating users of how fraudulent transactions are reported and only authorized accounts are allowed to trade on the platform.

Diwali Gift Card launch: To blend the existing traditions of Indian festivals with contemporary gifting, WazirX introduced Crypto Gift cards around Diwali. Realizing the popularity of Crypto among users, this feature was launched to provide new users an opportunity to experience Crypto trading with zero fees.

3rd Transparency Report: WazirX launched its 3rd transparency report to give users an overview of the operations of the platform including compliance, customer support, transaction monitoring, asset safeguarding, and other details relevant to the stakeholders. It also included details of fraudulent cases to raise awareness among users.

Insights on Union Budget 2023: WazirX along with other industry players shared their expectations from the Union Budget 2023 and communicated their wish to bring Crypto under the regulatory ambit, besides reducing the tax deducted at source for transactions.

Proof of Reserves: WazirX announced the publishing of its Proof of Reserves to promote full transparency in India's crypto ecosystem. It made its wallet addresses, list of exchanges, and an independent Proof of Reserves report available to the public, and provided reassurance to customers that their funds and virtual digital assets remain safe, with enough liquidity to serve the customers' withdrawal requests.

IIT Bombay TechFest: WazirX partnered with IIT Bombay to drive awareness around blockchain technology and Crypto to young enthusiasts of the institute. The speakers engaged with the participants around various developments in the Web3 ecosystem.

Women's Day Survey: WazirX conducted a survey with 400 female respondents to understand their investment pattern in Crypto assets. The survey results were shared with the media capturing details of popular assets, investment duration, purpose, social standing for women wrt Virtual Digital Assets

Position Papers and Advocacy Programs

WazirX believes that the best way to increase adoption of digital assets is by raising awareness among stakeholders.

WazirX conducted a training session on blockchain and virtual digital assets for Odisha Vigilance Dept. Officers at State Vigilance Academy, Bhubaneswar in January.

WazirX has continued to share reading material on its **blog** frequently and also indulges in discussions on **Discord, Twitter, Telegram, YouTube**, and more platforms.

Tackling misinformation and busting misconceptions around VDA is just one of the ways in which we can help our users make informed VDA investment decisions. As pioneers in this space, we are committed to spreading the right information to our users. We are constantly

making efforts to foster a conducive environment to help the crypto community make informed choices.