TRANSPARENCY REPORT

April 2023 – September 2023

wazirx

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Report Highlights

The 5th Transparency Report focuses on WazirX's efforts to create a robust and user-friendly platform for engagement with virtual digital assets.

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 3.07 lakh user interactions during this period.

WazirX also maintained its record of 100% compliance rate in as much as interfacing and assisting law enforcement agencies (LEAs) is concerned. The team diligently coordinated with Indian and Foreign LEAs and assisted them to identify suspicious transactions, suspected frauds, and identity thefts. Besides that, with the help of third party transaction monitoring tools and Red Flag Indicators (RFIs) integrated into the transaction monitoring system, WazirX took deterrent action against multiple customers where the transactions appeared to be complex or other than in the normal course. As its bounden duty and responsibility in the capacity of a reporting entity registered with the Financial Intelligence Unit, India (FIU-IND) WazirX duly reported suspicious transactions to the FIU.

📧 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 fifth version of the Transparency Report.

This report covers an overview of initiatives that the company took during the months of April 2023 to September 2023. It includes details on requests for user data, content, and account restrictions by Indian and Foreign law enforcement agencies.

During the above-mentioned time period, 1266 requests were received from Law Enforcement agencies (LEA). 160 requests were from Foreign LEAs and 1106 were from 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 certain 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 events, round table conferences, and continued collaboration with stakeholders to sustain awareness initiatives. WazirX also focussed on incentivising the community through Learn & Earn campaigns, through partnerships as well as on its own, 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 based on existing criteria and the Red Flag Indicators as issued by the FIU. Further, 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' funds, personal information, transactional and financial data. We abide by these 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

These measures are taken up to create a secure trading environment for our users.

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.
- 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 mask 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 suspicious accounts 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.

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.

New Features

- WazirX has launched the **KYC history feature** for users. With this feature it will be possible to track all the moves that a user does before his/her KYC is verified/rejected. Every status change will be tracked, recorded and will be available to our KYC and compliance team to do an in-depth check. This feature brings more

transparency in the system and enables the team to identify users in case of any fraudulent activity.

- WazirX also started scanning new user details to identify any individual listed as a threat by the United Nations Security Council. This was in line with global regulatory requirements to identify fraudulent actors and prevent them from using platforms that provide access to virtual digital assets.

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 to seamlessly handle all steps from account setup to individual trades and beyond.
- For assistance, our dedicated support teams across chat, email, and social media have engaged in over 3,07,000 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 April to September

As mentioned above, we have upscaled our teams and technology to assist our users. Because of this, we have:

- Integrated new feature for INR withdrawals on our platform
- Enabled Instant Bank Transfer which has been rolled out in a calibrated manner for all users
- Added 'New Listings' section on the home page to ensure all users are updated about latest listings from 10 days prior
- Introducing a 'What's New' popup to keep users informed of latest updates and enhancements of the app
- Launched 'Most Active' section which shows 8 most active INR markets on the platform based on both trading volume and price variation
- Introduced Coin Metadata Info on the app which will help traders and investors get essential token information, thus facilitating and encouraging DYOR (Do Your Own Research)

In April and May, 5 new tokens and 14 markets were listed. From July to September, 4 new tokens were listed and 23 USDT markets were listed.

👮 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 of 22 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.

Cases assisted: Wazirx assisted the Economic Offences Wing of Orissa Police to implicate a project involved in Crypto pyramid scheme which is a cognizable offense as recognized by the RBI.

Requests received from Law Enforcement Agencies
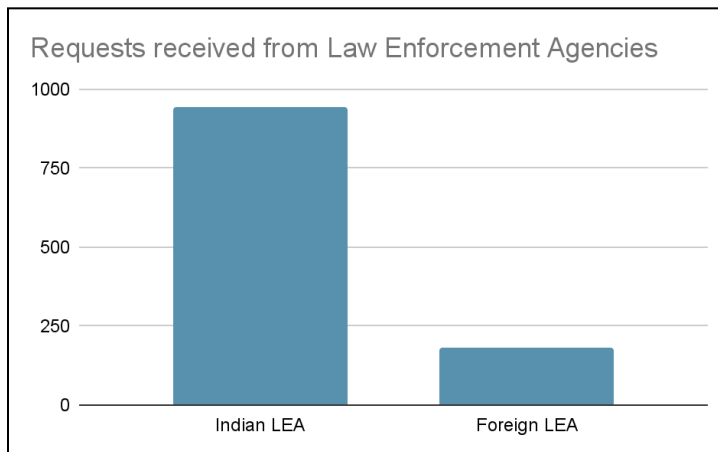
🛑 Fraud Detection and Prevention

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 continues to proactively report 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.

- **Mandatory Self Declaration for Existing Users:** In order to stay up to date with the latest compliance requirement, WazirX users need to submit Self Declaration details. This data is used in monitoring and reporting any suspicious transactions to FIU.

Strategically embedding the use of data through digital monitoring capabilities

WazirX's transaction monitoring system with third party tools and data generation for regulatory authorities, has assisted law enforcement agencies 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

Partnership with TaxNodes: WazirX and TaxNodes, an expert-assisted ITR filing platform joined hands to simplify tax calculation and filing for virtual digital assets in India. With this partnership, TaxNodes is assisting the vast user base of WazirX to accurately calculate and file taxes on their Crypto asset investments and make them aware of tax developments in the virtual digital asset industry. Read more about this partnership here.

TaxNodes & WazirX Learn & Earn Campaign: TaxNodes partnered with WazirX to launch a Learn & Earn campaign. Users had to answer 10 simple questions between 18 May 2023 and 25 May 2023 to get free services, discounts, and vouchers. The initiative was to educate users about the various aspects of taxation for VDAs. For further details, click here.

Partnership with GoSats: GoSats, a prepaid card which rewards users in Bitcoin, and WazirX have partnered to provide users with incredible offers which can be availed on purchasing the GoSats Elite Card. Users can unlock the following benefits:
- Bitcoin worth Rs.100.
- Times Prime Subscription that has EXCLUSIVE access to more than 20 app subscriptions (including Hotstar, Sony LIV, cult.fit, cleartrip, and many more), and
- Unbeatable deals and other benefits worth ₹10,000.

We conducted the BOB meme contest. Participants had an opportunity to win from a prize pool of 250 USDT.

In collaboration with TaxNodes, we introduced two TaxTuesday quizzes for our users. Fifty lucky individuals had the chance to win Vouchers (valued up to ₹1000).

We launched a survey to understand how crypto users have engaged with cryptocurrencies in recent years. You can participate in the survey by clicking here.

Position Papers and Advocacy Programs

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

Insights on G20 summit's decision on Crypto regulation: WazirX along with other industry players shared their expectations and reactions on the G20 summit's outlook on Crypto regulations. WazirX participated in industry dialogues, and consistently engaged with the media with recommendations and best practices for adoption of virtual digital assets in the country.

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.