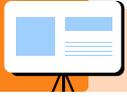




# **TRANSPARENCY REPORT**

October 2021 – March 2022



## 1. Foreword

Keeping up with maintaining transparency with law enforcement establishments and providing a secure trading environment for investors, WazirX is releasing the second version of the semi-annual transparency report for 2021-2022.

The report will provide an overview of initiatives and partnerships that the company took in the last 6 months to safeguard users in the virtual digital asset (VDA) ecosystem. The report also includes details on requests for user data, content, and account restrictions by Indian and foreign law enforcement agencies.



## 2. Previous Transparency Report

Our report last year stated that from April 2021 to September 2021, 377 requests were received from law enforcement agencies (LEA), out of which 38 requests were from Foreign Law enforcement agencies and 339 requests from Indian LEA.

All of these requests pertained to inquiries which were criminal in nature and our compliance rate was 100%. Apart from that, 14,469 accounts were blacklisted (90% of requests were from customers and 10% were due to payment disputes or ongoing investigations by LEA).

In recent times, we marked the initiation of Blockchain Research Papers, #IndiaWantsCrypto Campaign and our secondary research report with Nasscom to analyze the emerging trends in the CryptoTech industry. WazirX remained a part of the Internet and Mobile Association of India (IAMAI)'s Blockchain and Crypto-Assets Council (BACC) to collaborate with other exchanges and start-ups to work towards industry-wide best practices. New relationships were forged with Indian Institutes of Management (IIMs) and Delhi University to spread awareness and education on Blockchain and Virtual Digital Assets.



### 3. Policy and Legal Governance

#### Policy and Legal Composition:

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

- We have a well-equipped policy and legal team to review, coordinate and comply with concerned authorities
- Legal procedures are carefully reviewed and placed, based on previous requests from various agencies.
- Transactional data is scrutinized after receiving user consent

#### Partnership with Legal firms

WazirX collaborated with TRM Labs, a virtual digital asset compliance platform, to engage in transaction monitoring and investigation, wallet screening and risk management. The partnership has helped bolster the security of the platform and scale compliance initiatives.



### 4. Investor Protection

#### KYC Authentication

- To ensure investor protection on 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.
- A robust transaction mechanism is in place to identify any irregular and abnormal transactions.
- We routinely weed out bad actors based on transaction data intelligence. Product upgrades are regularly floated throughout the year.



- We monitor for fraud in KYC. Post KYC identification, users are restricted from submitting a new KYC from the same account.

#### **KYC Verification\*:**

- PAN Card (Mandatory) and any one of Aadhaar/Passport/Driving Licence

#### **Bank Verification:**

- Penny Drop: deposition of INR 1. in the account for verification.

This verifies the existence of the account and matches the account holder's name with their PAN and Aadhaar/Passport/Driving Licence.

#### **2 Factor Authentication (2FA) Login:**

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

Certain accounts are flagged by support team on the basis of trading activity, deposits and withdrawals, and if found dubious, users are blocked from withdrawal or 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 and 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 taken from the app and is matched against the KYC documents. A live photo is taken to ascertain against fake photos being submitted.



Step 5 - Bank verification happens after the user enters the Bank or UPI ID to match with the KYC. The check is done by penny drop testing or matched against the PAN Data submitted in the above steps or even API calls are used for the step, API calls happen between WazirX and payment partner who facilitates the penny drop service post which the Bank/UPI is marked verified.

Step 6 - After these steps are done, the user is able to transfer the money either through a bank account or 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 as well. They might have had VDAs through airdrops or mining or from trading on another platform.

Step 8 - With respect to Indian Rupee (INR) trades, users can use the INR in their account to buy ETH or 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 INR after the trade execution. This is done via the exchange open order book concept.

Step 9 - The buyer keeps the VDA or the seller who gets the INR by selling can withdraw the money out to his/her linked bank account.

## **Customer Support**

- To enhance user experience and increase touchpoints, we have created multiple channels to address user queries. These include phone no., chatbots and in-house customer support and call-centre teams.
- 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 voice, chat, email and social media who have engaged in over 1 million user interactions that have resulted in high customer satisfaction scores every quarter.

## **User Support**

WazirX also verifies user details with the National Securities Depository Limited (NSDL)



government database based on the PAN card number. 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. We have a sophisticated process to ensure that only verified investors and traders use the WazirX platform. There could be one or more reasons that KYC verification may not be approved and users can appeal through our 24X7 Support page, e.g.:

*Details Mismatch - User's details like Name & Address, and ID Card number do not match the KYC documents submitted. As a point of note for users, cross Checking all details before submitting is recommended.*

*Duplicate Account - Previously submitted, identical details, for another WazirX account. A user can have only one individual account and can be an authorised signatory in other accounts in case of corporates.*

### **Growth in WazirX support the last 6 Months:**

1. Increased Ticket Handling adeptness due to increase in new team capacity and specialised team allocations
2. The handling of straightforward INR Deposit Tickets by bot (i.e., in an automated fashion), to increase efficiency
3. Voice Support (Calling) 24\*7
4. Chat Support

### **Support Hours**

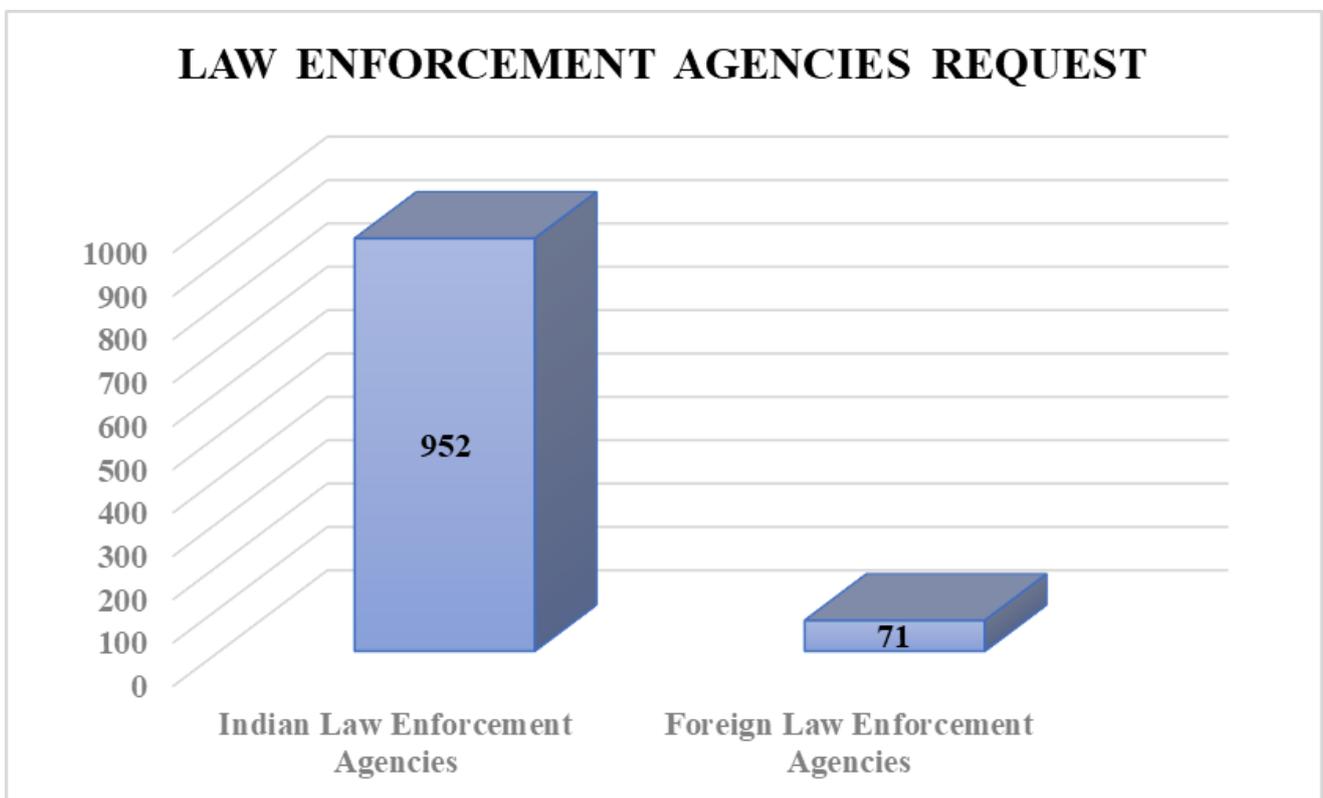
8 AM to 2 AM Mon-Fri for Account Management queries (2FA reset, Mobile no. change, Email Change, etc.), INR deposit/withdrawals and VDA Deposit/withdrawals.



## 5. Law Enforcement Requests

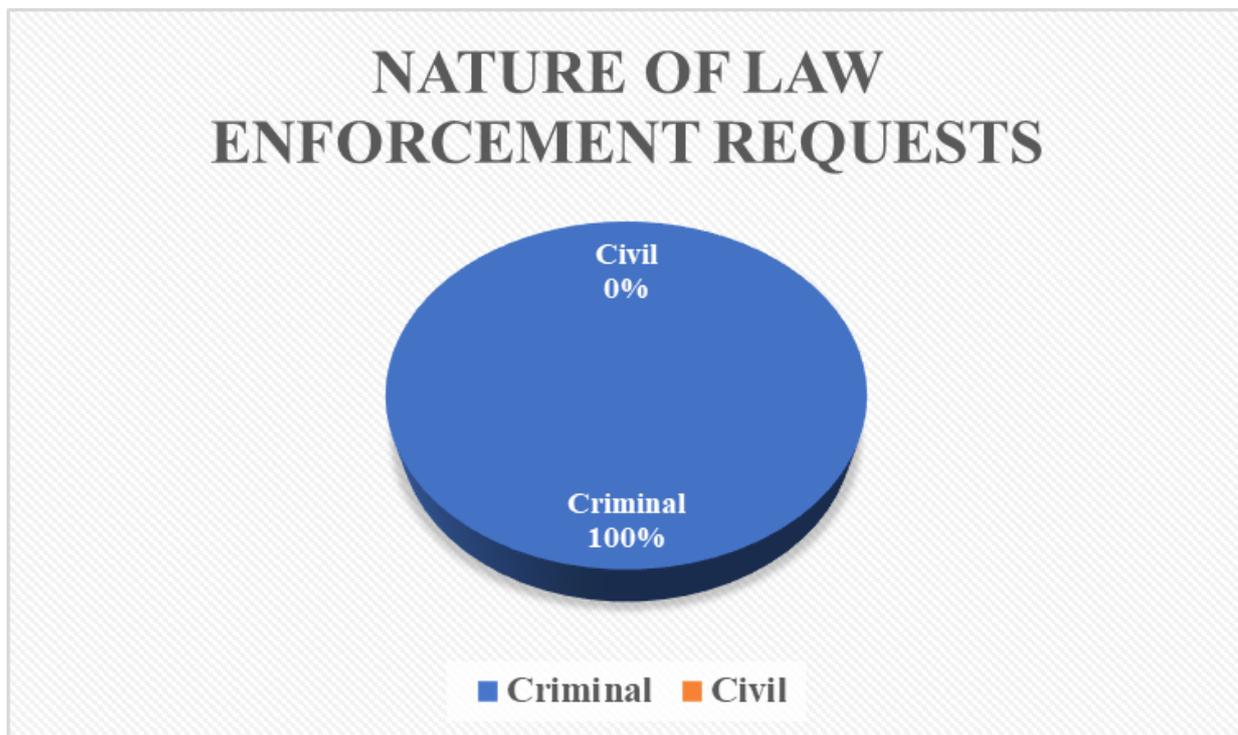
During the period from October 2021 to March 2022, WazirX received 952 requests from Indian law enforcement agencies and 71 requests from Foreign Law enforcement agencies for transactional and user information. WazirX has successfully responded to and complied with all of these requests.

Sr.No	Agencies	Requests
1.	Indian Law Enforcement Agencies	952
2.	Foreign Law Enforcement Agencies	71
	<b>TOTAL</b>	<b>1023</b>



## Nature of Requests

All the requests received from Indian as well as Foreign Enforcement Agencies were related to inquiries that were criminal in nature.



### • Blacklisting of Users

Blacklisting is subject to our terms and conditions i.e., when there is a violation of policies, false KYC, or if we notice our platform is being used for illegal activities, we blacklist the user. We also consider their suspicious large amount transactions, multiple accounts with the same IP address etc. Internal processes are in place to identify and out to relevant law enforcement agencies.

Our compliance rate for law enforcement requests has been 100% for all 1023 requests. We have so far locked 17,218 accounts from October 2021 to March 2022, an increase of 19% compared to the period between April 2021 to September 2021. 73% of these activities are user-driven (customer requested to close the account) and 27% are initiated by WazirX, who had to initiate locking the concerned accounts due to



payment disputes or ongoing investigations for LEA cases..

#### • **Turnaround Time**

The recommended Turnaround time (TAT) as per the IT Act 2000 for responding to the Law Enforcement Agencies (LEA) requests is up to 72 Hrs from the time request is received. However, with the help of efficient communication channels to aid LEA with their proceedings, WazirX clocked an average TAT of as quick as 22 minutes.

Augmenting digital monitoring capabilities and communication channels with LEA helped track fraudulent activities with the eventual successful closure of requests.

#### • **Process of implementing 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:

- 1) gather evidence in connection with an investigation, or
- 2) make a formal law enforcement request.

The following procedure 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 or aid of an ongoing legal proceeding.

#### **Procedure:**

- Sending in an email at [legal@wazirx.com](mailto:legal@wazirx.com) from the official email ID of the law enforcement agency along with a duly authorised written request
- Email is scrutinized along with the details of the complaint, details of the investigating officer and seal of the agency
- Initiation of action requested from our end

Some of the Indian and Foreign Law Enforcement Agencies that WazirX regularly works with are: National Investigation Agency, Enforcement Directorate, State Cyber Crime Cells, Intelligence Fusion & Strategic Ops (IFSO) Delhi, Special Task Force, Narcotics Control Bureau, Kansas Bureau of Investigation, US Secret Services (USSS),



Toronto Police Department, Federal Bureau of Investigation (FBI), German Police Agencies, Crime Branch and CID, United Kingdom Police, Interpol, Dutch Police.



## 6. 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 in India:

**i. Impersonation Scams:** With the rise in social media, imposters are successfully leveraging their reach to connect with VDA users. This is done by assuming the identity of a famous and credible individual from the VDA industry. As a result, the victim is lured to transfer the demanded amount to the imposter's account.

In a recent case, an imposter was trying to con VDA investors by creating a telegram channel with fake profiles of crypto-exchange founders. A request was registered with the concerned platform to take down the channel and fake profiles. Our legal team has proactively coordinated and supported LEAs on several requests regarding impersonation frauds.

**ii. Social Engineering Scams:** We have witnessed a growth in LEA requests pertaining to social engineering scams. Social engineering attacks are usually conducted through emails, phone calls and even text messages. Under various pretexts ranging from credit card expiry to bank account validation, the scammer tends to flag off a sense of urgency and fear with the aim to push victims to take action without careful assessment.

We recently got a request where on the pretext of blocking a credit card, a certain amount of VDA's was demanded by the scammer. This was later detected and the amount was retrieved.

**iii. Identity Theft:** With the changing nature and technological advancements in business and trade, users' personal identification becomes extremely crucial in delivering services. In the case of ID theft a scammer wrongfully obtains and uses another person's personal data with the intention of fraud or deception, typically for economic gains.



In one such case of identity theft detected by our team, the identified victim was aged 85 and had no ITR history. He claimed agriculture as his source of livelihood. Upon further scrutiny his distant relative was found operating the WazirX account, illegally, transacting large amounts. The victim was misguided by his relative to complete KYC checks successfully. Eventually, the user's account was blocked till further notice.

Sr.No	Categories	Percentage Share
1.	Identity Falsification / Identity Theft	5%
2.	Impersonation Cheating Scam	25%
3.	Phishing / Airdrop Scams	25%
4.	Ponzi Schemes and Social Engineering Scams	40%
	<b>TOTAL</b>	<b>95%</b>

This shows that majority of scams originates from outside the on-chain crypto ecosystem.

According to our data, only around 4.5% to 5% of cases are related to actual blockchain and VDA frauds, which we are assured to address with increased monitoring capabilities. Also, a clear regulatory framework could help with greater detection and resolution.



## 7. Building on our Transaction Monitoring Foundation

### Consistent quality and risk monitoring policies

Along with robust KYC and AML policies our collaboration with TRM Labs has augmented compliances and monitoring capabilities enabling us to monitor transactions continuously and investigate any suspicious activities.



- Continuous Transaction Monitoring: The transaction hash is passed to TRM's API and aspects of the transaction, including the sender and recipient addresses, are screened for risk indicators. In case of risk detection, an alert is triggered and logged in 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.



## 8. WazirX Monitoring Approach

### **Strategically embedding the use of data through digital monitoring capabilities**

WazirX leverages TRM labs transaction monitoring system and the data generated to aid in reporting to regulatory authorities and assists law enforcement agencies. With this WazirX has established a procedure of implementing a strong monitoring system simultaneously deriving the below-listed benefits:

- Payments fraud intelligence
- Audit Trail Maintenance
- Improving the TAT for compliance personnel
- Improve data quality and architecture
- Knowledge Sharing



## 9. Policy Outreach

In view of the concerns over the advertisements floated by VDA entities in India, WazirX was one of the first exchanges to stop advertisements.

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



## 10. Collaborations

### **Education Program backed by UGC**

With an aim to propagate the positives of Blockchain Technology and equip young individuals with in-depth knowledge about blockchain for future jobs a free bilingual course was launched. WazirX did this in collaboration with Gurukula Kangri in Haridwar, a deemed-to-be university per the University Grants Commission (UGC).

Since initiation, the course has seen more than 20,000 enrolments. On successfully completing the course, the Gurukula Kangri University awards students a certificate.

### **Collaboration with law enforcement**

WazirX is committed to its vision of active collaboration with law enforcement agencies to support them in an ever-evolving tech in VDA and Blockchain space. WazirX has a training module for pan-India's law enforcement community. The training includes knowledge of the basics of the blockchain, on-chain analysis to flag off suspicious trading activities as per regulatory frameworks, and education on using tools that can prevent such crimes and identify fraudulent from fair transactions. Till now, WazirX has collaborated with cybercrime establishments of more than 4 States as well as central financial monitoring agencies.

### **Position Papers and Advocacy Programs**

The VDA industry is poised to revolutionize the global economy. According to a Ministry of Electronics and Information Technology's (MeitY) report, India's digital economy is poised to reach \$1 Trillion by 2025; of this, \$385–\$505 billion of economic value will come from the new and emerging eco-systems, which would eventually help achieve the targeted \$5 Trillion economy by 2025. This can be accomplished with a progressive policy framework. The regulatory framework can help further create jobs, generate revenue and scale India to be a hub for the Blockchain industry.

WazirX along with other companies in the VDA industry in India has undertaken an exhaustive initiative to educate concerned stakeholders by reaching out to them with position papers on an array of issues ranging from taxation to regulation of VDAs.



Also, WazirX has recently partnered with Goa-based startup incubator, Atal Incubation Centre (AIC) and Builders Tribe, a Web3 incubator, to launch a blockchain accelerator program in the State. The program will help provide infrastructure, policy support, accreditation and training to help startups build go-to-market solutions.

Tackling misinformation and busting misconceptions around VDA is just one of the ways we think will help our users make informed VDA investment decisions. As pioneers in this space, we are committed to spreading the right information to our users by fostering a conducive environment to help them make informed choices.



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