



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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July 1, 2013

Chief Executive Officers  
All Primary (Urban) Co-operative Banks

Madam/Dear Sir,

**Master Circular on Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) / Obligations of banks under Prevention of Money Laundering Act (PMLA), 2002**

Please refer to our [Master Circular UBD.BPD. \(PCB\).MC No. 16/ 12.05.001/2012-13 dated July 2, 2012](#) on the captioned subject (available at RBI website [www.rbi.org.in](http://www.rbi.org.in)). The enclosed Master Circular consolidates and updates all the instructions / guidelines on the subject issued up to June 30, 2013 and mentioned in the Appendix.

Yours faithfully,

(A. K. Bera)  
Principal Chief General Manager

Encls.: As above

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बैंक हिन्दी में पत्राचार का स्वागत करता है —

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## **Master Circular on**

### **Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) / Obligations of banks under Prevention of Money Laundering Act (PMLA), 2002**

#### **1. Introduction**

1.1. The objective of KYC/AML/CFT guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. Banks were advised to follow certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. These 'Know Your Customer' guidelines have been revisited in the context of the Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Detailed guidelines based on the Recommendations of the Financial Action Task Force and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision, with indicative suggestions wherever considered necessary, have been issued. Banks are advised to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures with the approval of the Board is formulated and put in place. The guidelines issued by the Reserve Bank are under Section 35 A of Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and any contravention of or non-compliance with the same may attract penalties under the relevant provisions of the Act.

#### **1.2 Definition of Customer**

For the purpose of KYC policy, a 'Customer' is defined as:

- a person or entity that maintains an account and/or has a business relationship with the bank;
- one on whose behalf the account is maintained (i.e. the beneficial owner);

- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

## **2. Guidelines**

### **2.1 General**

- (i) Banks should keep in mind that the information collected from the customer for the purpose of opening of account is to be treated as confidential and details thereof are not to be divulged for cross selling or any other like purposes. Banks should, therefore, ensure that information sought from the customer is relevant to the perceived risk, is not intrusive, and is in conformity with the guidelines issued in this regard. Any other information from the customer should be sought separately with his/her consent and after opening the account.
- (ii) Banks should ensure that any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode and issue of travellers' cheques for value of Rupees fifty thousand and above is effected by debit to the customer's account or against cheques and not against cash payment.
- (iii) Banks should ensure that the provisions of Foreign Contribution (Regulation) Act, 1976 as amended from time to time, wherever applicable, are strictly adhered to.

### **2.2 KYC Policy**

Banks should frame their KYC policies incorporating the following four key elements:

- (a) Customer Acceptance Policy;
- (b) Customer Identification Procedures;

- (c) Monitoring of Transactions; and
- (d) Risk Management.

### **2.3 Customer Acceptance Policy (CAP)**

a) Every bank should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the bank:

- (i) No account is opened in anonymous or fictitious/benami name(s);
- (ii) Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc. to enable categorisation of customers into low, medium and high risk (banks may choose any suitable nomenclature viz. level I, level II and level III). Customers requiring very high level of monitoring, e.g. Politically Exposed Persons (PEPs) may, if considered necessary, be categorised even higher;
- (iii) Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and instructions/guidelines issued by Reserve Bank from time to time;
- (iv) Not to open an account or close an existing account where the bank is unable to apply appropriate customer due diligence measures i.e. bank is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non cooperation of the customer or non reliability of the data/information furnished to the bank. It is, however, necessary to have suitable built in safeguards to avoid harassment of the customer. For example, decision by a bank to close an account should be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision;
- (v) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out in conformity with the established law

and practice of banking as there could be occasions when an account is operated by a mandate holder or where an account is opened by an intermediary in fiduciary capacity and

(vi) Necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organisations etc.

b) The increasing complexity and volume of financial transactions necessitate that customers do not have multiple identities within a bank, across the banking system and across the financial system. This can be achieved by introducing a unique identification code for each customer. In this regard, a Working Group constituted by the Government of India has proposed the introduction of unique identifiers for customers across different banks and Financial Institutions for setting up a centralized KYC Registry. Banks should allot Unique Customer Identification Code (UCIC) to all their customers while entering into any new relationships for individual customers. Similarly, existing individual customers should be allotted unique customer identification code by March 31, 2014. The UCIC will help banks to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and enable banks to have a better approach to risk profiling of customers. It would also smoothen banking operations for the customers.

c) Banks should prepare a profile for each new customer based on risk categorisation. The customer profile may contain information relating to customer's identity, social/financial status, nature of business activity, information about his clients' business and their location etc. The nature and extent of due diligence will depend on the risk perceived by the bank. However, while preparing customer profile banks should take care to seek only such information from the customer, which is relevant to the risk category and is not intrusive. The customer profile is a confidential document and details contained therein should not be divulged for cross selling or any other purposes.

d) For the purpose of risk categorisation, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and

transactions in whose accounts by and large conform to the known profile, may be categorised as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments and Government owned companies, regulators and statutory bodies etc. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met. Customers that are likely to pose a higher than average risk to the bank should be categorised as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. Banks should apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear. Examples of customers requiring higher due diligence include (a) nonresident customers; (b) high net worth individuals; (c) trusts, charities, NGOs and organizations receiving donations; (d) companies having close family shareholding or beneficial ownership; (e) firms with 'sleeping partners'; (f) politically exposed persons (PEPs) of foreign origin; (g) non-face to face customers and (h) those with dubious reputation as per public information available etc. However only NPOs/NGOs promoted by United Nations or its agencies may be classified as low risk customer.

e) It is important to bear in mind that the adoption of customer acceptance policy and its implementation should not become too restrictive and must not result in denial of banking services to general public, especially to those, who are financially or socially disadvantaged.

#### **2.4 Customer Identification Procedure (CIP)**

(a) The policy approved by the Board of banks should clearly spell out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data

or information. Banks need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of banking relationship. Being satisfied means that the bank must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Such risk based approach is considered necessary to avoid disproportionate cost to banks and a burdensome regime for the customers. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc.). For customers that are natural persons, the banks should obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the bank should (i) verify the legal status of the legal person/entity through proper and relevant documents; (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorised and identify and verify the identity of that person; (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution are given in paragraph 2.5 below for guidance of banks. Banks may, however, frame their own internal guidelines based on their experience of dealing with such persons/entities, normal bankers' prudence and the legal requirements as per established practices. If the bank decides to accept such accounts in terms of the Customer Acceptance Policy, the bank should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

(b) Rule 9(1A) of the Prevention of Money Laundering Rules, 2005 requires that every banking company, and financial institution, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity. The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and / or the person on whose behalf the transaction is being conducted, and includes a person who exercises ultimate effective control over a juridical person. Government of India has since examined the issue and has



specified the procedure for determination of Beneficial Ownership. The procedure as advised by the Government of India is as under:

A. Where the client is a person other than an individual or trust, the banking company and financial institution, as the case may be, shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information :

(i) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Explanation : Controlling ownership interest means ownership of / entitlement to more than 25 percent of shares or capital or profits of the juridical person, where the juridical person is a company; ownership of / entitlement to more than 15% of the capital or profits of the juridical person where the juridical person is a partnership; or, ownership of / entitlement to more than 15% of the property or capital or profits of the juridical person where the juridical person is an unincorporated association or body of individuals.

(ii) In cases where there exists doubt under (i) as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements, etc.

(iii) Where no natural person is identified under (i) or (ii) above, the identity of the relevant natural person who holds the position of senior managing official.

B. Where the client is a trust, the banking company and financial institution, as the case may be, shall identify the beneficial owners of the client and take reasonable

measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

C. Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

(c) It has been observed that some close relatives, e.g. wife, son, daughter and daughter and parents etc. who live with their husband, father/mother and son, as the case may be, are finding it difficult to open account in some banks as the utility bills required for address verification are not in their name. It is clarified, that in such cases, banks can obtain an identity document and a utility bill of the relative with whom the prospective customer is living along with a declaration from the relative that the said person (prospective customer) wanting to open an account is a relative and is staying with him/her. Banks can use any supplementary evidence such as a letter received through post for further verification of the address. While issuing operational instructions to the branches on the subject, banks should keep in mind the spirit of instructions issued by the Reserve Bank and avoid undue hardships to individuals who are, otherwise, classified as low risk customers.

(d) Banks should introduce a system of periodical updation of customer identification data (including photograph/s) after the account is opened. The periodicity of such updation should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories. Primary (Urban) Co-operative banks have been advised to complete the process of risk categorization and compiling / updating profiles of all of their existing customers by March 31, 2013.

(e) An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in Annex I to this Master Circular. It is clarified that permanent correct address, as referred to in Annex I, means the

address at which a person usually resides and can be taken as the address as mentioned in a utility bill or any other document accepted by the bank for verification of the address of the customer. It is clarified that while opening accounts based on Aadhaar also banks must satisfy themselves about the current address of the customer by obtaining required proof of the same as per extant instructions

(f) It has been brought to our notice that the said indicative list furnished in Annex I is being treated by some banks as an exhaustive list as a result of which a section of public is being denied access to banking services. Banks are, therefore, advised to take a review of their extant internal instructions in this regard.

## **2.5 Customer Identification Requirements – Indicative Guidelines**

### **(i) Trust/Nominee or Fiduciary Accounts**

There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures. Banks should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, banks should insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, banks should take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/ directors and the beneficiaries, if defined.

### **(ii) Accounts of companies and firms**

(a) Banks need to be vigilant against business entities being used by individuals as a 'front' for maintaining accounts with banks. Banks should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a public company it will not be necessary to identify all the shareholders.

(b) Certain firms posing as Multi Level Marketing (MLM) agencies for consumer goods and services have been mobilizing large deposits from the public (with promise of high return) by opening accounts at various bank branches. These funds running into crores of rupees were being pooled at the principal accounts of the MLM Firms and were eventually flowing out of the accounts for purpose appearing illegal or highly risky. Accordingly, while opening agency accounts in the name of a proprietary concern the following documents need to be obtained and verified.

(i) Identity as also the address proof of the proprietor, such as passport, PAN card, Voter ID card, Driving Licence, Ration Card with photo, etc. – any one of the document is obtained.

(ii) Proof of the name, address and activity of the concern, like registration certificate(in the case of a registered concern), certificate /licence issued by the Municipal authorities under Shop and Establishment act, sales and income tax returns, CST / VAT certificate, Licence issued by the registering authority like Certificate of Practice issued by the Institute of Chartered Accountants of India, Institute of Companies Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, any certificate / registration document issued by Sales Tax / Service Tax / Professional Tax authorities, etc. any two of the documents are to be obtained. These documents should be in the name of the proprietary concern. Further, the complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated /acknowledged by the Income Tax Authorities and utility bills such as electricity, water and landline telephone bills in the name of the proprietary concern are also included in the indicative list of required documents for opening accounts of proprietary concerns.

**(iii) Client accounts opened by professional intermediaries**

When the bank has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, the client must be

identified. Banks may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Banks also maintain 'pooled' accounts managed by lawyers/chartered accountants or stockbrokers for funds held 'on deposit' or 'in escrow' for a range of clients. Where funds held by the intermediaries are not co-mingled at the bank and there are 'sub-accounts', each of them attributable to a beneficial owner, all the beneficial owners must be identified. Where such funds are co-mingled at the bank, the bank should still look through to the beneficial owners. Where the banks rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It should be understood that the ultimate responsibility for knowing the customer lies with the bank.

Under the extant AML/CFT framework, it is not possible for professional intermediaries like Lawyers and Chartered Accountants, etc. who are bound by client confidentiality that prohibits disclosure of the client details, to hold an account on behalf of their clients. It is, therefore, reiterated that any professional intermediary who under any obligation that inhibits bank's ability to know and verify the true identity of the client on whose behalf the account is held or beneficial ownership of the account or understand true nature and purpose of transaction/s, should not be allowed to open an account on behalf of a client.

#### **(iv) Accounts of Politically Exposed Persons (PEPs) resident outside India**

Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. Banks should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. Banks should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level which should be clearly spelt out in Customer Acceptance Policy. Banks should also subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also

be applied to the accounts of the family members or close relatives of PEPs and accounts where PEP is the ultimate beneficial owner. In the event of an existing customer or the beneficial owner of an existing account, subsequently becoming a PEP, Banks should obtain senior management approval to continue the business relationship and subject the account to the CDD measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis.

**(v) Accounts of non-face-to-face customers**

With the introduction of telephone and electronic banking, increasingly accounts are being opened by banks for customers without the need for the customer to visit the bank branch. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented should be insisted upon and, if necessary, additional documents may be called for. In such cases, banks may also require the first payment to be effected through the customer's account with another bank which, in turn, adheres to similar KYC standards. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the bank may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.

**(vi) Opening of bank accounts – Salaried Employees**

It has been brought to our notice that for opening bank accounts of salaried employees some banks rely on a certificate / letter issued by the employer as the only KYC document for the purposes of certification of identity as well as address proof. Such a practice is open to misuse and fraught with risk. It is, therefore, clarified that with a view to containing the risk of fraud, banks need to rely on such certification only from corporates and other entities of repute and should be aware of the competent authority designated by the concerned employer to issue such certificate/letter. Further, **in addition** to the certificate from employer, banks should insist on at least one of the officially valid documents as provided in the Prevention of Money Laundering Rules (viz. passport, driving licence, PAN Card, Voter's Identity

card etc.) or utility bills for KYC purposes for opening bank account of salaried employees of corporates and other entities.

**(vii) Opening of new accounts - Proof of identity and address**

Banks have been calling for separate documents for verification of identity and address even though the documents for identity proof (Passport, Drivers' Licence etc.) also carry the address of the individual concerned. In view of this, customers frequently complain about the requirement of producing two sets of documents, one each for identity and address proof. To ease the burden on the prospective customers in complying with KYC requirements for opening new accounts, it is therefore clarified that

(a) If the address on the document submitted for identity proof by the prospective customer is same as that declared by him / her in the account opening form, the document may be accepted as a valid proof of both identity and address.

(b) If the address indicated on the document submitted for identity proof differs from the current address mentioned in the account opening form, a separate proof of address should be obtained. For this purpose, apart from the indicative documents listed in Annex I of this Master Circular, a rent agreement indicating the address of the customer duly registered with State Government or similar registration authority may also be accepted as a proof of address.

**(viii) Introduction not Mandatory for opening accounts**

Before implementation of the system of document-based verification of identity, as laid down in PML Act / Rules, introduction from an existing customer of the bank was considered necessary for opening of bank accounts. In many banks, obtaining of introduction for opening of accounts is still a mandatory part of customer acceptance policy even though documents of identity and address as required under our instructions are provided. This poses difficulties for prospective customers in opening accounts as they find it difficult to obtain introduction from an existing account holder. Since introduction is not necessary for opening of accounts under

PML Act and Rules or Reserve Bank's extant KYC instructions, banks should not insist on introduction for opening bank accounts of customers.

**(ix) Acceptance of Aadhaar letter for KYC purposes**

Unique Identification Authority of India (UIDAI) has advised Reserve Bank that banks are accepting Aadhaar letter issued by it as a proof of identity but not of address, for opening accounts. As indicated at paragraph 2.5 (vii) above, if the address provided by the account holder is the same as that on Aadhaar letter, it may be accepted as a proof of both identity and address.

**(x) Acceptance of NREGA Job Card as KYC for normal accounts**

In order to avoid inconvenience to customers from rural areas, banks are advised that they may now accept NREGA Job Card as an 'officially valid document' for opening of bank accounts without the limitations applicable to 'Small Accounts'.

**(xi) Shifting of bank accounts to another centre - Proof of address**

KYC once done by one branch of the bank should be valid for transfer of the account within the bank as long as full KYC procedure had been done for the concerned account. The customer should be allowed to transfer his account from one branch to another branch without restrictions. However, it has been brought to our notice that a large number of customers with transferable jobs or those who migrate for jobs are unable to produce a utility bill or other documents in their name as address proof immediately after relocating. In view of this, it is clarified that

(a) Banks may transfer existing accounts at the transferor branch to the transferee branch without insisting on fresh proof of address and on the basis of a self-declaration from the account holder about his / her current address, subject to submitting proof of address within a period of six months.

(b) Banks may also accept rent agreement duly registered with State Government or similar registration authority indicating the address of the customer, in addition to other documents listed as proof of address in Annex I of this Master Circular.

Further, banks should intimate their customers that in the event of change in address due to relocation or any other reason, they should intimate the new address to the



bank within two weeks of such a change. While opening new accounts and while periodically updating KYC data as required in terms of paragraph 2.4 (d) of this Master Circular, an undertaking to this effect should be obtained. In all these cases customers will have to produce proof of address as mentioned at (a) and (b) above.

#### **(xii) Opening of Savings Bank Accounts and Credit Linking of account for Self Help Groups (SHGs)**

In order to address the difficulties faced by Self Help Groups (SHGs) in complying with KYC norms while opening savings bank accounts and credit linking of their accounts, it is clarified that KYC verification of all the members of SHG need not be done while opening the savings bank account of the SHG and KYC verification of all the office bearers would suffice. As regards KYC verification at the time of credit linking of SHGs, it is clarified that since KYC would have already been verified while opening the savings bank account and the account continues to be in operation and is to be used for credit linkage, no separate KYC verification of the members or office bearers is necessary.

### **2.6 Small Deposit Accounts**

(i) Although flexibility in the requirements of documents of identity and proof of address has been provided in the above mentioned KYC guidelines, it has been observed that a large number of persons, especially, those belonging to low income group both in urban and rural areas are not able to produce such documents to satisfy the bank about their identity and address. This would lead to their inability to access the banking services and result in their financial exclusion. Accordingly, the KYC procedure also provides for opening accounts for those persons who intend to keep balances not exceeding Rupees Fifty Thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed Rupees One Lakh (Rs. 1,00,000/-) in a year. In such cases, if a person who wants to open an account and is not able to produce documents mentioned in Annex I of this Master Circular, banks should open an account for him, subject to:

any evidence as to the identity and address of the customer to the satisfaction of the bank.

(ii) While opening accounts as described above, the customer should be made aware that if at any point of time, the balances in all his/her accounts with the bank (taken together) exceeds Rupees Fifty Thousand (Rs. 50,000/-) or total credit in the account exceeds Rupees One Lakh (Rs. 1,00,000/-) in a year, no further transactions will be permitted until the full KYC procedure is completed. In order not to inconvenience the customer, the bank must notify the customer when the balance reaches Rupees Forty Thousand (Rs. 40,000/-) or the total credit in a year reaches Rupees Eighty thousand (Rs. 80,000/-) that appropriate documents for conducting the KYC must be submitted otherwise operations in the account will be stopped.

Further, banks were advised to open accounts with reduced KYC standards in respect of persons affected by floods to enable them to credit the grant received from the Government. These accounts shall also be treated at par with the accounts opened as per above instructions. However, the maximum balance in such accounts may be permitted as the amount of grant received from the Government or Rs. 50,000 whichever is more and the initial credit of the grant amount shall not be counted towards the total credit.

(iii) In terms of Government of India, Notification No. 14/2010/F.No.6/2/2007-E.S dated December 16, 2010, the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 has been amended. The notification is reproduced at Annex IV of this circular.

#### **A. Small Accounts**

a) In terms of Rule 2 clause (fb) of the Notification 'small account' means a savings account in a banking company where-

- (i) The aggregate of all credits in a financial year does not exceed rupees one lakh;
- (ii) The aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand; and
- (iii) The balance at any point of time does not exceed rupees fifty thousand.

b) Rule (2A) of the Notification lays down the detailed procedure for opening 'small accounts'. Banks are advised to ensure adherence to the procedure provided in the Rules for opening of small accounts.

c) It has been brought to our notice that banks are not promoting opening of 'Small Accounts' for greater financial inclusion. Banks are, therefore, advised to open 'Small Accounts' for all persons who so desire. It is reiterated that all limitations applicable to 'Small Accounts' should be strictly observed.

## **B. Officially valid documents**

The Notification has also expanded the definition of 'officially valid document' as contained in clause (d) of Rule 2(1) of the PML Rules to include job card issued by NREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

## **2.7 Monitoring of Transactions**

(i) Ongoing monitoring is an essential element of effective KYC procedures. Banks can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. Banks should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. Banks may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits. Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of the bank. Very high account turnover inconsistent with the size of the balance maintained may indicate that funds are being 'washed' through the account. High-risk accounts have to be subjected to intensified monitoring. Every bank should set key indicators for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors. Banks should put in place a system of periodical review of risk categorization of accounts and the need

for applying enhanced due diligence measures. Such review of risk categorisation of customers should be carried out at a periodicity of **not less** than once in six months. Banks are also required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorisation and updated profile of customers. It is needless to add that a robust software throwing alerts is essential for effective identification and reporting of suspicious transactions.

(ii) In view of the risks involved in cash intensive businesses, accounts of bullion dealers (including sub-dealers) & Jewellers should also be categorised by banks as “high risk” requiring enhanced due diligence.

(iii) It is advised that high risk associated accounts should be taken into account by banks to identify Suspicious Transactions Reports.

## **2.8 Closure of accounts**

Where the bank is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the bank should consider closing the account or terminating the banking/business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level.

## **2.9 Risk Management**

(a) The Board of Directors of the bank should ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It should cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the bank for ensuring that the bank’s policies and procedures are implemented effectively. Banks should, in consultation with their boards, devise procedures for creating risk profiles of their existing and new customers and apply various anti money laundering measures keeping in view the risks involved in a transaction, account or banking/business relationship.

(b) The Government of India had constituted a National Money Laundering / Financing of Terror Risk Assessment Committee to assess money laundering and terror financing risks, a national AML / CFT strategy and institutional framework for

AML / CFT in India. The recommendations of the Committee have since been accepted by the Government of India and need to be implemented. The Committee has made recommendations regarding adoption of a risk-based approach, assessment of risk and putting in place a system which would use that assessment to take steps to effectively counter ML/FT.

(c) Accordingly, banks should take steps to identify and assess their ML / FT risk for customers, countries and geographical areas as also for products / services / transactions / delivery channels, in addition to what has been prescribed in the circulars issued by the Reserve Bank on KYC/AML/CFT/Obligation of banks under PMLA from time to time. Banks should have policies, controls and procedures, duly approved by their boards in place, to effectively manage and mitigate their risk adopting a risk-based approach as discussed above. As a corollary, banks would be required to adopt enhanced measures for products, services and customers with a medium or high risk rating.

(d) In this regard, Indian Banks' Association (IBA) has taken initiative in assessment of ML / FT risk in the banking sector and prepared a guidance note on Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards in July 2009. The guidance note is available on the IBA website. The IBA guidance also provides an indicative list of high risk customers, products, services and geographies. Banks may use the same as guidance in their own risk assessment.

(e) Banks' internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of the bank's own policies and procedures, including legal and regulatory requirements. Banks should ensure that their audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ Internal Auditors should specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard should be put up before the Audit Committee of the Board on quarterly intervals.

## **2.10 Introduction of New Technologies – Credit cards/debit cards/smart cards/gift cards**

Banks should pay special attention to any money laundering threats that may arise from new or developing technologies including internet banking that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes. Many banks are engaged in the business of issuing a variety of Electronic Cards that are used by customers for buying goods and services, drawing cash from ATMs, and can be used for electronic transfer of funds. Banks are required to ensure full compliance with all KYC/AML/CFT guidelines issued from time to time, in respect of add-on/ supplementary cardholders also. Further, marketing of credit cards is generally done through the services of agents. Banks should ensure that appropriate KYC procedures are duly applied before issuing the cards to the customers. It is also desirable that agents are also subjected to KYC measures.

## **2.11 Combating Financing of Terrorism**

(a) In terms of PMLA Rules, suspicious transaction should include *inter alia* transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism. Banks are, therefore, advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links and swift identification of the transactions and making suitable reports to the Financial Intelligence Unit – India (FIU-IND) on priority.

(b) As and when list of individuals and entities, approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs), are received from Government of India, Reserve Bank circulates these to all banks and financial institutions. Banks should ensure to update the consolidated list of individuals and entities as circulated by the Reserve Bank. Further, the updated list of such individuals/entities can be accessed in the United Nations website at [http://www.un.org/sc/committees/1267/ag\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/ag_sanctions_list.shtml). The UN Security Council has adopted Resolutions 1988 (2011) and 1989 (2011) which have resulted in splitting of the Consolidated List into two separate lists, namely:

- (i) 'Al-Qaida Sanctions List', which is maintained by the 1267 / 1989 Committee. This List shall include only the names of those individuals, groups, undertakings and entities associated with Al-Qaida. General information on the work of the committee is available at <http://www.un.org/sc/committees/1267/information.shtml>. The Updated Al-Qaida Sanctions List is available at [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml)
- (ii) '1988 Sanctions List', which is maintained by the 1988 Committee. This list consists of names previously included in Sections A ("Individuals associated with the Taliban") and B ("Entities and other groups and undertakings associated with the Taliban") of the Consolidated List. The Updated 1988 Sanctions list is available at <http://www.un.org/sc/committees/1988/list.shtml>

It may be noted that both 'Al-Qaida Sanctions List' and '1988 Sanctions List' are to be taken into account for the purpose of implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967. Banks are required to update the lists of individuals/entities as circulated by Reserve Bank and before opening any new account, it should be ensured that the name/s of the proposed customer does not appear in either list. Further, banks should scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the two lists. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to the Reserve Bank and FIU-IND.

(c) The Unlawful Activities (Prevention) Act, 1967 (UAPA) has been amended by the Unlawful Activities (Prevention) Amendment Act, 2008. Government has since issued an Order dated August 27, 2009 detailing the procedure for implementation of Section 51 A of the UAPA relating to the purposes of prevention of, and for coping with terrorist activities. In terms of Section 51 A, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism and prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of

the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism.

Banks are advised to strictly follow the procedure laid down in the UAPA Order dated August 27, 2009 (Annex III) and ensure meticulous compliance to the Order issued by the Government.

Banks are advised that on receipt of the list of individuals and entities subject to UN sanctions (referred to as designated lists) from the Reserve Bank, they should ensure expeditious and effective implementation of the procedure prescribed under Section 51 A of UAPA in regard to freezing /unfreezing of financial assets of the designated individuals/entities enlisted in the UNSCRs and especially in regard to funds, financial assets or economic resources or related services held in the form of bank accounts.

In terms of paragraph 4 of the Order, in regard to funds, financial assets or economic resources or related services held in the form of bank accounts, the Reserve Bank would forward the designated lists to the banks requiring them to:

- (i) Maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed in the Schedule to the Order (referred to as designated individuals/entities) are holding any funds, financial assets or economic resources or related services held in the form of bank accounts with them.
- (ii) In case, the particulars of any of their customers match with the particulars of designated individuals/entities, the banks shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, financial assets or economic resources or related services held in the form of bank accounts, held by such customer on their books to the Joint Secretary (IS-I), Ministry of Home Affairs (MHA) at FAX No. 011 – 23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on e-mail.
- (iii) Banks shall also send by post a copy of the communication mentioned in (ii) above to the UAPA nodal officer of the Reserve Bank, Chief General



Manager, Department of Banking Operations and Development, Anti Money Laundering Division, World Trade Centre, 4th Floor, Centre 1, Cuffe Parade, Colaba, Mumbai - 400 005 and also by FAX at No. 022-22185792. The particulars apart from being sent by post/FAX should necessarily be conveyed on e-mail.

- (iv) Banks shall also send a copy of the communication mentioned in (ii) above to the UAPA nodal officer of the State/Union Territory where the account is held as the case may be and to FIU-IND.
- (v) In case, the match of any of the customers with the particulars of designated individuals/entities is **beyond doubt**, the banks would prevent designated persons from conducting financial transactions, under intimation to Joint Secretary (IS-I), MHA at Fax No. 011 – 23092569 and also convey over telephone over 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on e-mail.
- (vi) Banks shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph (ii) above, carried through or attempted, as per the prescribed format.

**(d) Freezing of financial assets**

- (i) On receipt of the particulars as mentioned in paragraph c (ii) above, IS-I Division of MHA would cause a verification to be conducted by the State Police and/or the Central Agencies so as to ensure that the individuals/entities identified by the banks are the ones listed as designated individuals/entities and the funds, financial assets or economic resources or related services, reported by banks are held by the designated individuals/entities. This verification would be completed within a period not exceeding five working days from the date of receipt of such particulars.
- (ii) In case, the results of the verification indicate that the properties are owned by or held for the benefit of the designated individuals/entities, an order to freeze these assets under Section 51 A of the UAPA would be issued within 24

hours of such verification and conveyed electronically to the bank branch concerned under intimation to the Reserve Bank and FIU-IND.

(iii) The Order shall take place without prior notice to the designated individuals/entities.

**(e) Implementation of requests received from foreign countries under UNSCR 1373 of 2001**

(i) UNSCR 1373 obligates countries to freeze without delay the funds or other assets of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds or other assets derived or generated from property owned or controlled, directly or indirectly by such persons and associated persons and entities.

(ii) To give effect to the requests of foreign countries under UNSCR 1373, the Ministry of External Affairs shall examine the requests made by the foreign countries and forward it electronically, with their comments, to the UAPA nodal officer for IS-I Division for freezing of funds or other assets.

(iii) The UAPA nodal officer of IS-I Division of MHA, shall cause the request to be examined, within five working days so as to satisfy itself that on the basis of applicable legal principles, the requested designation is supported by reasonable grounds, or a reasonable basis, to suspect or believe that the proposed designee is a terrorist, one who finances terrorism or a terrorist organization, and upon his satisfaction, request would be electronically forwarded to the nodal officers in the Reserve Bank. The proposed designee, as mentioned above would be treated as designated individuals/entities.

(iv) Upon receipt of the requests from the UAPA nodal officer of IS-I Division, the list would be forwarded to banks and the procedure as enumerated at paragraphs 2.11(c), (d) shall be followed.

(v) The freezing orders shall take place without prior notice to the designated persons involved.

**(f) Procedure for unfreezing of funds, financial assets or economic resources or related services of individuals/entities inadvertently affected by the freezing mechanism upon verification that the person or entity is not a designated person**

Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned /held by them has been inadvertently frozen, they shall move an application giving the requisite evidence , in writing, to the bank concerned. The banks shall inform and forward a copy of the application together with full details of the asset frozen given by any individual or entity informing of the funds, financial assets or economic resources or related services have been frozen inadvertently, to the nodal officer of IS-I Division of MHA as per the contact details given in paragraph c (ii) above within two working days. The Joint Secretary, IS-I, MHA being the nodal officer for IS-I Division of MHA, shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within fifteen working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the bank concerned. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of IS-I Division shall inform the applicant.

**(g) Communication of Orders under Section 51A of Unlawful Activities (Prevention) Act, 1967**

All Orders under Section 51 A of Unlawful Activities (Prevention) Act, 1967, relating to funds, financial assets or economic resources or related service, would be communicated to all banks through the Reserve Bank. Banks are advised to bring the provisions of the Unlawful Activities (Prevention) Act, 1967 to the notice of the staff concerned and ensure strict compliance.

**(h) Deficiencies in AML / CFT regime in certain countries**

Banks are also advised to take into account risks arising from the deficiencies in AML/CFT regime of certain jurisdictions as identified in FATF Statement issued from time to time.

## **2.12 Correspondent Banking**

**(a)** Correspondent banking is the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”). These services may include cash/funds management, international wire transfers, drawing arrangements for demand drafts and mail transfers, payable-through-accounts, cheques clearing etc. Banks should gather sufficient information to understand fully the nature of the business of the correspondent/respondent bank. Information on the other bank’s management, major business activities, level of AML/CFT compliance, purpose of opening the account, identity of any third party entities that will use the correspondent banking services, and regulatory/supervisory framework in the correspondent's/respondent’s country may be of special relevance. Similarly, banks should try to ascertain from publicly available information whether the other bank has been subject to any money laundering or terrorist financing investigation or regulatory action. While it is desirable that such relationships should be established only with the approval of the Board, in case the Boards of some banks wish to delegate the power to an administrative authority, they may delegate the power to a committee headed by the Chairman/CEO of the bank while laying down clear parameters for approving such relationships. Proposals approved by the Committee should invariably be put up to the Board at its next meeting for post facto approval. The responsibilities of each bank with whom correspondent banking relationship is established should be clearly documented. In the case of payable-through-accounts, the correspondent bank should be satisfied that the respondent bank has verified the identity of the customers having direct access to the accounts and is undertaking ongoing 'due diligence' on them. The correspondent bank should also ensure that the respondent bank is able to provide the relevant customer identification data immediately on request.

### **(b) Correspondent relationship with a ‘Shell Bank’**

Banks should refuse to enter into a correspondent relationship with a ‘shell bank’ (i.e. a bank which is incorporated in a country where it has no physical presence and is unaffiliated to any regulated financial group). Shell banks are not permitted to operate in India. Banks should also guard against establishing relationships with respondent foreign financial institutions that permit their accounts to be used by shell

banks. Before establishing correspondent relationship with any foreign institution, banks should take appropriate measures to satisfy themselves that the foreign respondent institution does not permit its accounts to be used by shell banks. Banks should be extremely cautious while continuing relationships with respondent banks located in countries with poor KYC standards and countries identified as 'non-cooperative' in the fight against money laundering and terrorist financing. Banks should ensure that their respondent banks have anti money laundering policies and procedures in place and apply enhanced 'due diligence' procedures for transactions carried out through the correspondent accounts.

### **2.13 Wire Transfer**

Banks use wire transfers as an expeditious method for transferring funds between bank accounts. Wire transfers include transactions occurring within the national boundaries of a country or from one country to another. As wire transfers do not involve actual movement of currency, they are considered as a rapid and secure method for transferring value from one location to another.

(i) The salient features of a wire transfer transaction are as under:

- (a) Wire transfer is a transaction carried out on behalf of an originator person (both natural and legal) through a bank by electronic means with a view to making an amount of money available to a beneficiary person at a bank. The originator and the beneficiary may be the same person.
- (b) Cross-border transfer means any wire transfer where the originator and the beneficiary bank or financial institutions are located in different countries. It may include any chain of wire transfers that has at least one cross-border element.
- (c) Domestic wire transfer means any wire transfer where the originator and receiver are located in the same country. It may also include a chain of wire transfers that takes place entirely within the borders of a single country even though the system used to effect the wire transfer may be located in another country.
- (d) The originator is the account holder, or where there is no account, the person (natural or legal) that places the order with the bank to perform the wire transfer.

(ii) Wire transfer is an instantaneous and most preferred route for transfer of funds across the globe and hence, there is a need for preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds and for detecting any misuse when it occurs. This can be achieved if basic information on the originator of wire transfers is immediately available to appropriate law enforcement and/or prosecutorial authorities in order to assist them in detecting, investigating, prosecuting terrorists or other criminals and tracing their assets. The information can be used by Financial Intelligence Unit - India (FIU-IND) for analysing suspicious or unusual activity and disseminating it as necessary. The originator information can also be put to use by the beneficiary bank to facilitate identification and reporting of suspicious transactions to FIU-IND. Owing to the potential terrorist financing threat posed by small wire transfers, the objective is to be in a position to trace all wire transfers with minimum threshold limits. Accordingly, banks must ensure that all wire transfers are accompanied by the following information:

**(A) Cross-border wire transfers**

- (i) All cross-border wire transfers must be accompanied by accurate and meaningful originator information.
- (ii) Information accompanying cross-border wire transfers must contain the name and address of the originator and where an account exists, the number of that account. In the absence of an account, a unique reference number, as prevalent in the country concerned, must be included
- (iii) Where several individual transfers from a single originator are bundled in a batch file for transmission to beneficiaries in another country, they may be exempted from including full originator information, provided they include the originator's account number or unique reference number as at (ii) above.

**(B) Domestic wire transfers**

- (i) Information accompanying all domestic wire transfers of Rs. 50000/- (Rupees Fifty Thousand) and above must include complete originator information i.e. name, address and account number etc., unless full originator information can be made available to the beneficiary bank by other means.

- (ii) If a bank has reason to believe that a customer is intentionally structuring wire transfer to below Rs. 50000/- (Rupees Fifty Thousand) to several beneficiaries in order to avoid reporting or monitoring, the bank must insist on complete customer identification before effecting the transfer. In case of non-cooperation from the customer, efforts should be made to establish his identity and Suspicious Transaction Report (STR) should be made to FIU-IND.
- (iii) When a credit or debit card is used to effect money transfer, necessary information as (i) above should be included in the message.

### **iii) Exemptions**

Interbank transfers and settlements where both the originator and beneficiary are banks or financial institutions would be exempted from the above requirements.

### **(iv) Role of Ordering, Intermediary and Beneficiary banks**

#### **(a) Ordering Bank**

An ordering bank is the one that originates a wire transfer as per the order placed by its customer. The ordering bank must ensure that qualifying wire transfers contain complete originator information. The bank must also verify and preserve the information at least for a period of ten years.

#### **(b) Intermediary bank**

For both cross-border and domestic wire transfers, a bank processing an intermediary element of a chain of wire transfers must ensure that all originator information accompanying a wire transfer is retained with the transfer. Where technical limitations prevent full originator information accompanying a cross-border wire transfer from remaining with a related domestic wire transfer, a record must be kept at least for ten years (as required under Prevention of Money Laundering Act, 2002) by the receiving intermediary bank of all the information received from the ordering bank.

#### **(c) Beneficiary bank**

A beneficiary bank should have effective risk-based procedures in place to identify wire transfers lacking complete originator information. The lack of complete

originator information may be considered as a factor in assessing whether a wire transfer or related transactions are suspicious and whether they should be reported to the Financial Intelligence Unit-India. The beneficiary bank should also take up the matter with the ordering bank if a transaction is not accompanied by detailed information of the fund remitter. If the ordering bank fails to furnish information on the remitter, the beneficiary bank should consider restricting or even terminating its business relationship with the ordering bank.

#### **2.14 Principal Officer**

(a) Banks should appoint a senior management officer to be designated as Principal Officer. Principal Officer shall be located at the head/corporate office of the bank and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, banks and any other institution which are involved in the fight against money laundering and combating financing of terrorism. With a view to enable the Principal Officer to discharge his responsibilities, it is advised that the Principal Officer and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information. Further, banks should ensure that the Principal Officer is able to act independently and report directly to the senior management or to the Board of Directors.

(b) The Principal Officer will be responsible for timely submission of CTR, STR and reporting of counterfeit notes to FIU-IND.

(c) The Principal Officer will also oversee and ensure overall compliance with regulatory guidelines on KYC / AML / CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended from time to time.

#### **2.15 Maintenance of records of transactions/Information to be preserved/Maintenance and preservation of records/Cash and Suspicious transactions reporting to Financial Intelligence Unit- India (FIU-IND)**

Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 1, 2005 in the Gazette of India, has notified the Rules under



the Prevention of Money Laundering Act (PMLA), 2002. In terms of the said Rules, the provisions of PMLA, 2002 came into effect from July 1, 2005. Section 12 of the PMLA, 2002 casts certain obligations on the banking companies in regard to preservation and reporting of customer account information. Banks are, therefore, advised to go through the provisions of PMLA, 2002 (as amended from time to time) and the Rules notified there under and take all steps considered necessary to ensure compliance with the requirements of Section 12 of the Act *ibid*.

**(i) Maintenance of records of transactions**

Banks should introduce a system of maintaining proper record of transactions prescribed under Rule 3, as mentioned below:

- (a) all cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;
- (b) all series of cash transactions integrally connected to each other which have been valued below Rupees Ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rupees Ten lakh;
- (c) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transaction and
- (d) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

**Explanation - Integrally connected cash transactions referred to at (b) above**

The following transactions have taken place in a branch during the month of April 2008:

<b>Date</b>	<b>Mode</b>	<b>Dr (Rs.)</b>	<b>Cr (Rs.)</b>	<b>Balance (Rs.) BF – 8,00,000.00</b>
02/04/2008	Cash	5,00,000.00	3,00,000.00	6,00,000.00
07/04/2008	Cash	40,000.00	2,00,000.00	7,60,000.00
08/04/2008	Cash	4,70,000.00	1,00,000.00	3,90,000.00
Monthly summation		<b>10,10,000.00</b>	<b>6,00,000.00</b>	

As per above clarification, the debit transactions in the above example are integrally connected cash transactions because total cash debits during the calendar month exceeds Rs. 10 lakh. However, the bank should report only the debit transaction taken place on 02/04 and 08/04/2008. The debit transaction dated 07/04/2008 should not be separately reported by the bank, which is less than Rs. 50, 000/-. All the credit transactions in the above example would not be treated as integrally connected, as the sum total of the credit transactions during the month does not exceed Rs. 10 lakh and hence credit transaction dated 02, 07 & 08/04/2008 should not be reported by banks.

**(ii) Information to be maintained**

Banks are required to maintain the following information, including necessary information required for reconstruction of the transactions referred to in Rule 3:

- (a) the nature of the transactions;
- (b) the amount of the transaction and the currency in which it was denominated;
- (c) the date on which the transaction was conducted; and
- (d) the parties to the transaction

**(iii) Maintenance and Preservation of record**

(a) Banks are required to maintain the records (hard and soft copies) containing information in respect of transactions referred to in Rule 3 above. Banks should take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, banks should maintain for at least ten years from the date of transaction between the bank and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

(b) Banks should ensure that records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN card, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least ten years

**after the business relationship is ended.** The identification records and transaction data should be made available to the competent authorities upon request.

(c) In paragraph 2.7 of this Master Circular, banks have been advised to pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. It is further clarified that the background including all documents/office records/memorandums pertaining to such transactions and purpose thereof should, as far as possible, be examined and the findings at branch as well as Principal Officer level should be properly recorded. Such records and related documents should be made available to help auditors in their day-to-day work relating to scrutiny of transactions and also to Reserve Bank/other relevant authorities. These records are required to be preserved for ten years as is required under PMLA, 2002.

#### **Reporting to Financial Intelligence Unit – India**

(a) In terms of the PMLA rules, banks are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

Director, FIU-IND,  
Financial Intelligence Unit-India,  
6th Floor, Hotel Samrat,  
Chanakyapuri,  
New Delhi-110021.  
Website - <http://fiuindia.gov.in/>

(b) Banks should carefully go through all the reporting formats. There are altogether eight reporting formats, as detailed in Annex II, viz. i) Cash Transactions Report (CTR); ii) Summary of CTR iii) Electronic File Structure-CTR; iv) Suspicious Transactions Report (STR); v) Electronic File Structure-STR; vi) Counterfeit Currency Report (CCR); vii) Summary of CCR and viii) Electronic File Structure-CCR.

The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND. It would be necessary for banks to initiate urgent steps to ensure electronic filing of all types of reports to FIU-

IND. The related hardware and technical requirement for preparing reports in an electronic format, the related data files and data structures thereof are furnished in the instructions part of the concerned formats.

(c) FIU-IND have placed on their website editable electronic utilities to enable banks to file electronic CTR/STR who are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data base. It is, therefore, advised that in cases of banks, where all the branches are not fully computerized, the Principal Officer of the bank should cull out the transaction details from branches which are not yet computerized and suitably arrange to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND in their website <http://fiuindia.gov.in/>

(d) The FIU-India has advised that the above mentioned multiple data files/reporting format is being replaced by a new single XML file format and prepared a comprehensive reporting format guide giving the specifications of the prescribed reports to be furnished to FIU-India.

The reporting formats specified in the reporting format guide are: (i) Account based reporting format (ARF) for reporting of account based CTRs, STRs and NTRs (ii) Transactions based reporting format (TRF) for reporting of transaction based CTRs, STRs and NTRs and (iii) CCR reporting format (CRF) for reporting of counterfeit currency reports (CCRs)

(e) FIU-IND has developed a Report Generation Utility and Report Validation Utility to assist reporting entities in the preparation of the prescribed reports. Reporting entities, which have necessary technical capabilities, may generate XML reports directly from their systems. Reporting entities are encouraged to shift to the fixed width data structure version 2.0 before generating XML reports at their end.

The following documents have been placed in the 'Downloads' section of the FIU-IND website (<http://fiuindia.gov.in>).

- (i) Reporting Format Guide

(ii) XML Schemas: AccountBasedReport.xsd, TransactionBasedReport.xsd, CCRBasedReport.xsd, FIU-INDSchemaLibrary.xsd and DataQualityReport.xsd

(iii) User Guides: Report Generation Utility User Guide and Report Validation Utility User Guide

Banks are advised to carefully go through the reporting formats and initiate urgent steps to build capacity to generate reports, which are compliant with the XML format specifications. The date of transition from the old reporting format to the new reporting format will be communicated to the reporting entities separately.

(v) In terms of instructions contained in paragraph 2.3 (c) of this Master Circular, banks are required to prepare a profile for each customer based on risk categorisation. Further, vide paragraph 2.7, the need for periodical review of risk categorisation has been emphasized. It is, therefore, reiterated that banks, as a part of transaction monitoring mechanism, are required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorization and updated profile of customers. It is needless to add that a robust software throwing alerts is essential for effective identification and reporting of suspicious transaction.

(vi) The CEOs of banks are advised to personally monitor the adherence by the bank officials to the provisions of the AML/ PMLA guidelines and ensure that systems and procedures are put in place and instructions percolated to the operational levels. It should also be ensured that there is a proper system of fixing accountability for serious lapses and intentional circumvention of prescribed procedures and guidelines.

## **2.16 Cash and Suspicious Transaction Reports**

### **1. Cash Transaction Report (CTR)**

While detailed instructions for filing all types of reports are given in the instructions part of the related formats, banks should scrupulously adhere to the following:

(i) The Cash Transaction Report (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month. Cash transaction reporting by branches to

their Principal Officer / controlling offices should, therefore, invariably be submitted on monthly basis **(not on fortnightly basis)** and banks should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule. In regard to CTR the cut off limit of Rs. 10 lakh is applicable to integrally connected cash transactions also.

(ii) All cash transactions, where forged or counterfeit Indian currency notes have been used as genuine should be reported by the Principal Officer to FIU-IND immediately in the specified format (Counterfeit Currency Report – CCR). These cash transactions should also include transactions where forgery of valuable security or documents has taken place and may be reported to FIU-IND in plain text form.

(iii) While filing CTR, details of individual transactions below Rupees Fifty thousand need not be furnished.

(iv) CTR should contain only the transactions carried out by the bank on behalf of their clients/customers excluding transactions between the internal accounts of the bank.

(v) A summary of cash transaction report for the bank as a whole should be compiled by the Principal Officer of the bank every month in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted to FIU-India.

(vi) In case of Cash Transaction Reports (CTR) compiled centrally by banks for the branches having Core Banking Solution (CBS) at their central data centre level, banks may generate centralised Cash Transaction Reports (CTR) in respect of branches under core banking solution at one point for onward transmission to FIU-IND, provided:

(a) The CTR is generated in the format prescribed by Reserve Bank in Para 2.15 (iv) (b) of this Master Circular.

(b) A copy of the monthly CTR submitted on its behalf to FIU-India is available at the concerned branch for production to auditors/inspectors, when asked for; and

- (c) The instruction on 'Maintenance of records of transactions'; 'Information to be preserved' and 'Maintenance and Preservation of records' as contained above in this master circular at paragraph 2.15 (i), (ii) and (iii) respectively are scrupulously followed by the branch. However, in respect of branches not under CBS, the monthly CTR should continue to be compiled and forwarded by the branch to the Principal Officer for onward transmission to FIU-IND.

## **2. Suspicious Transaction Reports (STR)**

- (i) While determining suspicious transactions, banks should be guided by definition of suspicious transaction contained in PMLA Rules as amended from time to time.
- (ii) It is likely that in some cases transactions are abandoned / aborted by customers on being asked to give some details or to provide documents. It is clarified that banks should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.
- (iii) Banks should make STRs if they have reasonable ground to believe that the transaction involve proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002.
- (iv) As per extant instructions, a bank should not open an account (or should consider closing an existing account) when it is unable to apply appropriate CDD measures. It is clarified that in the circumstances when a bank believes that it would no longer be satisfied that it knows the true identity of the account holder, the bank should also file an STR with FIU-IND.
- (v) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction

report is received from a branch or any other office. Such report should be made available to the competent authorities on request.

(vi) In the context of creating KYC/AML awareness among the staff and for generating alerts for suspicious transactions, banks may consider the indicative list of suspicious activities contained in Annex E of the 'IBA's Guidance Note for Banks, 2005'.

(vii) Banks should not put any restrictions on operations in the accounts where an STR has been made. Moreover, it should be ensured that there is no **tipping off** to the customer at any level.

## **2.17 Customer Education/Employee's Training/Employee's Hiring**

### **(a) Customer Education**

Implementation of KYC procedures requires banks to demand certain information from customers which may be of personal nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for banks to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

### **(b) Employee's Training**

Banks must have an ongoing employee training programme so that the members of the staff are adequately trained in KYC procedures. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently.

### **(c) Hiring of Employees**

It may be appreciated that KYC norms/AML standards/CFT measures have been prescribed to ensure that criminals are not allowed to misuse the banking channels. It would, therefore, be necessary that adequate screening mechanism is put in place by banks as an integral part of their recruitment/hiring process of personnel.





	its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill
Accounts of partnership firms <ul style="list-style-type: none"> <li>• Legal name</li> <li>• Address</li> <li>• Names of all partners and their addresses</li> <li>• Telephone numbers of the firm and partners</li> </ul>	(i) Registration certificate, if registered(ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm/partners
Accounts of trusts & foundations <ul style="list-style-type: none"> <li>• Names of trustees, settlers, beneficiaries and signatories</li> <li>• Names and addresses of the founder, the managers/directors and the beneficiaries</li> <li>• Telephone/fax numbers</li> </ul>	(i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers/directors and their addresses (iv) Resolution of the managing body of the foundation/association (v) Telephone bill

## **Annex II (Paragraph No. 2.15 (iv) (b))**

### **(List of various reports)**

1. Cash Transaction Report(CTR)
2. Summary of CTR
3. electronic File Structure – CTR
4. Suspicious Transactions Report(STR)
5. Electronic File Structure – STR
6. Counterfeit Currency Report (CCR)
7. Summary of CCR
8. Electronic File Structure - CCR

**Annex III (Paragraph No. 2.11 (c))**

**File No.17015/10/2002-IS-VI  
Government of India  
Ministry of Home Affairs  
Internal Security-I Division**

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New Delhi, dated 27th August, 2009

**ORDER**

Subject: Procedure for implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967

The Unlawful Activities (Prevention) Act, 1967 (UAPA) has been amended and notified on 31.12.2008, which, inter-alia, inserted Section 51A to the Act. Section 51A reads as under:-

*"51A. For the prevention of, and for coping with terrorist activities, the Central Government shall have power to –*

- a. freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of or at the direction of the individuals or entities Listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism;*
- b. prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities Listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism;*
- c. prevent the entry into or the transit through India of individuals Listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism",*

**The Unlawful Activities (Prevention) Act define "Order" as under:-**

"Order" means the Prevention and Suppression of Terrorism (Implementation of Security Council Resolutions) Order, 2007, as may be amended from time to time.

In order to expeditiously and effectively implement the provisions of Section 51A, the following procedures shall be followed:-

**Appointment and Communication of details of UAPA nodal officers**

2. As regards appointment and communication of details of UAPA nodal officers –

- i. The UAPA nodal officer for IS-I division would be the Joint Secretary (IS.I), Ministry of Home Affairs. His contact details are 011-23092736(Tel), 011-23092569(Fax) and (e-mail).
- ii. The Ministry of External Affairs, Department of Economic Affairs, Foreigners Division of MHA, FIU-IND; and RBI, SEBI, IRDA (hereinafter referred to as Regulators) shall appoint a UAPA nodal officer and communicate the name and contact details to the IS-I Division in MHA.
- iii. The States and UTs should appoint a UAPA nodal officer preferably of the rank of the Principal Secretary/Secretary, Home Department and communicate the name and contact details to the IS-I Division in MHA.
- iv. The IS-I Division in MHA would maintain the consolidated list of all UAPA nodal officers and forward the list to all other UAPA nodal officers.
- v. The RBI, SEBI, IRDA should forward the consolidated list of UAPA nodal officers to the banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies respectively.
- vi. The consolidated list of the UAPA nodal officers should be circulated to the nodal officer of IS-I Division of MHA in July every year and on every change. Joint Secretary(IS-I), being the nodal officer of IS-I Division of MHA, shall cause the amended list of UAPA nodal officers to be circulated to the nodal officers of Ministry of External Affairs, Department of Economic Affairs, Foreigners Division of MHA, RBI, SEBI, IRDA and FIU-IND.

### **Communication of the list of designated individuals/entities**

#### **3. As regards communication of the list of designated individuals/entities-**

- i. The Ministry of External Affairs shall update the list of individuals and entities subject to UN sanction measures on a regular basis. On any revision, the Ministry of External Affairs would electronically forward this list to the Nodal Officers in Regulators, FIU-IND, IS-I Division and Foreigners' Division in MHA.
- ii. The Regulators would forward the list mentioned in (i) above (referred to as designated lists) to the banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies respectively.
- iii. The IS-I Division of MHA would forward the designated lists to the UAPA nodal officer of all States and UTs.

- iv. The Foreigners Division of MHA would forward the designated lists to the immigration authorities and security agencies.

**Regarding funds, financial assets or economic resources or related services held in the form of bank accounts, stocks or insurance policies etc.**

4. As regards funds, financial assets or economic resources or related services held in the form of bank accounts, stocks or insurance policies etc., the Regulators would forward the designated lists to the banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies respectively. The RBI, SEBI and IRDA would issue necessary guidelines to banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies requiring them to –

- i. Maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed in the schedule to the Order (referred to as designated individuals/entities) are holding any funds, financial assets or economic resources or related services held in the form of bank accounts, stocks or insurance policies etc. with them.
- ii. In case, the particulars of any of their customers match with the particulars of designated individuals/entities, the banks, stock exchanges/ depositories, intermediaries regulated by SEBI and insurance companies shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, financial assets or economic resources or related services held in the form of bank accounts, stocks or insurance policies etc. held by such customer on their books to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on [e-mail](#).
- iii. The banks, stock exchanges/ depositories, intermediaries regulated by SEBI and insurance companies shall also send by post a copy of the communication mentioned in (ii) above to the UAPA nodal officer of the state/ UT where the account is held and Regulators and FIU0IND, as the case may be.
- iv. In case, the match of any of the customers with the particulars of designated individuals/entities is beyond doubt, the banks stock exchanges / depositories, intermediaries regulated by SEBI and insurance companies would prevent designated persons from conducting financial transactions, under intimation to Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No. 011-23092569 and

also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on [e-mail](#).

- v. The banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies shall file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph (ii) above, carried through or attempted, as per the prescribed format.

5. On receipt of the particulars referred to in paragraph 3(ii) above, IS-I Division of MHA would cause a verification to be conducted by the State Police and/or the Central Agencies so as to ensure that the individuals/entities identified by the banks, stock exchanges/depositories, intermediaries regulated by SEBI and Insurance Companies are the ones listed as designated individuals/entities and the funds, financial assets or economic resources or related services, reported by banks, stock exchanges/depositories, intermediaries regulated by SEBI and insurance companies are held by the designated individuals/entities. This verification would be completed within a period not exceeding 5 working days from the date of receipt of such particulars.

6. In case, the results of the verification indicate that the properties are owned by or held for the benefit of the designated individuals/entities, an order to freeze these assets under section 51A of the UAPA would be issued within 24 hours of such verification and conveyed electronically to the concerned bank branch, depository, branch of insurance company branch under intimation to respective Regulators and FIU-IND. The UAPA nodal officer of IS-I Division of MHA shall also forward a copy thereof to all the Principal Secretary/Secretary, Home Department of the States or UTs, so that any individual or entity may be prohibited from making any funds, financial assets or economic assets or economic resources or related services available for the benefit of the designated individuals/entities or any other person engaged in or suspected to be engaged in terrorism. The UAPA nodal officer of IS-I Division of MHA shall also forward a copy of the order under Section 51A, to all Directors General of Police/Commissioners of Police of all states/UTs for initiating action under the provisions of Unlawful Activities (Prevention) Act.

The order shall take place without prior notice to the designated individuals/entities.

**Regarding financial assets or economic resources of the nature of immovable properties.**

7. IS-I Division of MHA would electronically forward the designated lists to the UAPA nodal officer of all States and UTs with the request to have the names of the designated individuals/entities, on the given parameters, verified from the records of the office of the Registrar performing the work of registration of immovable properties in their respective jurisdiction.

8. In case, the designated individuals/entities are holding financial assets or economic resources of the nature of immovable property and if any match with the designated individuals/entities is found, the UAPA nodal officer of the State/UT would cause communication of the complete particulars of such individual/entity along with complete details of the financial assets or economic resources of the nature of immovable property to the Joint Secretary (IS.I), Ministry of Home Affairs, immediately within 24 hours at Fax No.011-23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on [e-mail](#).

9. The UAPA nodal officer of the State/UT may cause such inquiry to be conducted by the State Police so as to ensure that the particulars sent by the Registrar performing the work of registering immovable properties are indeed of these designated individuals/entities. This verification would be completed within a maximum of 5 working days and should be conveyed within 24 hours of the verification, if it matches with the particulars of the designated individual/entity to Joint Secretary(IS-I), Ministry of Home Affairs at the Fax telephone numbers and also on the e-mail id given below.

10. A copy of this reference should be sent to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post would necessarily be conveyed on [e-mail](#). MHA may have the verification also conducted by the Central Agencies. This verification would be completed within a maximum of 5 working days.

11. In case, the results of the verification indicate that the particulars match with those of designated individuals/entities, an order under Section 51A of the UAPA would be issued within 24 hours, by the nodal officer of IS-I Division of MHA and conveyed to the concerned Registrar performing the work of registering immovable properties and to FIU-IND under intimation to the concerned UAPA nodal officer of the State/UT.

The order shall take place without prior notice, to the designated individuals/entities.

12. Further, the UAPA nodal officer of the State/UT shall cause to monitor the transactions/accounts of the designated individual/entity so as to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the schedule to the order or any other person engaged in or suspected to be engaged in terrorism. The UAPA nodal officer of the State/UT shall upon coming to his notice, transactions and attempts by third party immediately bring to the notice of the



DGP/Commissioner of Police of the State/UT for also initiating action under the provisions of Unlawful Activities (Prevention) Act.

**Implementation of requests received from foreign countries under U.N. Security Council Resolution 1373 of 2001.**

13. U.N. Security Council Resolution 1373 obligates countries to freeze without delay the funds or other assets of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities owned or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds or other assets derived or generated from property owned or controlled, directly or indirectly, by such persons and associated persons and entities. Each individual country has the authority to designate the persons and entities that should have their funds or other assets frozen. Additionally, to ensure that effective cooperation is developed among countries, countries should examine and give effect to, if appropriate, the actions initiated under the freezing mechanisms of other countries.

14. To give effect to the requests of foreign countries under U.N. Security Council Resolution 1373, the Ministry of External Affairs shall examine the requests made by the foreign countries and forward it electronically, with their comments, to the UAPA nodal officer for IS-I Division for freezing of funds or other assets.

15. The UAPA nodal officer of IS-I Division of MHA, shall cause the request to be examined, within 5 working days so as to satisfy itself that on the basis of applicable legal principles, the requested designation is supported by reasonable grounds, or a reasonable basis, to suspect or believe that the proposed designee is a terrorist, one who finances terrorism or a terrorist organization, and upon his satisfaction, request would be electronically forwarded to the nodal officers in Regulators. FIU-IND and to the nodal officers of the States/UTs. The proposed designee, as mentioned above would be treated as designated individuals/entities.

16. Upon receipt of the requests by these nodal officers from the UAPA nodal officer of IS-I Division, the procedure as enumerated at paragraphs 4 to 12 above shall be followed.

The freezing orders shall take place without prior notice to the designated persons involved.

**Procedure for unfreezing of funds, financial assets or economic resources or related services of individuals/entities inadvertently affected by the freezing mechanism upon verification that the person or entity is not a designated person**

17. Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, they shall move an application giving the requisite evidence, in writing, to the concerned bank, stock exchanges/depositories, intermediaries regulated by SEBI, insurance companies, Registrar of Immovable Properties and the State/UT nodal officers.

18. The banks stock exchanges/depositories, intermediaries regulated by SEBI, insurance companies, Registrar of Immovable Properties and the State/UT nodal officers shall inform and forward a copy of the application together with full details of the asset frozen given by any individual or entity informing of the funds, financial assets or economic resources or related services have been frozen inadvertently, to the nodal officer of IS-I Division of MHA as per the contact details given in paragraph 4(ii) above within two working days.

19. The Joint Secretary (IS-I), MHA, being the nodal officer for (IS-I) Division of MHA, shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within 15 working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the concerned bank, stock exchanges/depositories, intermediaries regulated by SEBI, insurance company and the nodal officers of States/UTs. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of IS-I Division shall inform the applicant.

#### **Communication of Orders under section 51A of Unlawful Activities (Prevention) Act.**

20. All Orders under section 51A of Unlawful Activities (Prevention) Act, relating to funds, financial assets or economic resources or related services, would be communicated to all banks, depositories/stock exchanges, intermediaries regulated by SEBI, insurance companies through respective Regulators, and to all the Registrars performing the work of registering immovable properties, through the State/UT nodal officer by IS-I Division of MHA.

#### **Regarding prevention of entry into or transit through India**

21. As regards prevention of entry into or transit through India of the designated individuals, the Foreigners Division of MHA, shall forward the designated lists to the immigration authorities and security agencies with a request to prevent the entry into or the transit through India. The order shall take place without prior notice to the designated individuals/entities.

22. The immigration authorities shall ensure strict compliance of the Orders and also communicate the details of entry or transit through India of the designated individuals as prevented by them to the Foreigners' Division of MHA.

**Procedure for communication of compliance of action taken under Section 51A.**

23. The nodal officers of IS-I Division and Foreigners Division of MHA shall furnish the details of funds, financial assets or economic resources or related services of designated individuals/entities frozen by an order, and details of the individuals whose entry into India or transit through India was prevented, respectively, to the Ministry of External Affairs for onward communication to the United Nations.

24. All concerned are requested to ensure strict compliance of this order.

(D .Diptivilasa)  
Joint Secretary to Government of India

**Annex IV (Paragraph No. 2.6 (iii))**

**{to be published in the Gazette of India Extraordinary, Part II,  
Section 3, Sub-Section (i)}  
Government of India  
Ministry of Finance  
(Department of Revenue)  
Notification**

**New Delhi, the 16th December, 2010**

GSR (E) – In exercise of the powers conferred by sub-section (1) read with clauses (h) (i), (j) and (k) of sub-section (2) of Section 73 of the Prevention of Money-laundering Act, 2002 (15 of 2003), the Central Government hereby makes the following amendments to the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, namely:-

(1) (1) These rules may be called the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Third Amendment Rules, 2010.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. In the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005,-

(a) in rule 2,-

(i) after clause (b), the following clause shall be inserted, namely:-

“(bb) “Designated Officer” means any officer or a class of officers authorized by a banking company, either by name or by designation, for the purpose of opening small accounts”.

(ii) in clause (d), for the words “the Election Commission of India or any other document as may be required by the banking company or financial institution or

intermediary”, the words “Election Commission of India, job card issued by NREGA duly signed by an officer of the State Government, the letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number or any other document as notified by the Central Government in consultation with the Reserve Bank of India or any other document as may be required by the banking companies, or financial institution or intermediary” shall be substituted;

(iii) after clause (fa), the following clause shall be inserted, namely:-

“(fb) “small account” means a savings account in a banking company where-

(i) the aggregate of all credits in a financial year does not exceed rupees one lakh,

(ii) the aggregate of all withdrawals and transfers in a month does not exceed rupees ten thousand, and;

(iii) the balance at any point of time does not exceed rupees fifty thousand”.

(b) In rule 9, after sub-rule (2), the following sub-rule shall be inserted, namely:-

“(2A) Notwithstanding anything contained in sub-rule (2), an individual who desires to open a small account in a banking company may be allowed to open such an account on production of a self-attested photograph and affixation of signature or thumb print, as the case may be, on the form for opening the account.

Provided that –

(i) the designated officer of the banking company, while opening the small account, certifies under his signature that the person opening the account has affixed his signature or thumb print, as the case may be, in his presence;

(ii) a small account shall be opened only at Core Banking Solution linked banking company branches or in a branch where it is possible to manually monitor and ensure that foreign remittances are not credited to a small account and that the stipulated limits on monthly and annual aggregate of transactions and balance in such accounts are not breached, before a transaction is allowed to take place;

(iii) a small account shall remain operational initially for a period of twelve months, and thereafter for a further period of twelve months if the holder of such an account provides evidence before the banking company of having applied for any of the officially valid documents within twelve months of the opening of the said account, with the entire relaxation provisions to be reviewed in respect of the said account after twenty four months.

(iv) a small account shall be monitored and when there is suspicion of money laundering or financing of terrorism or other high risk scenarios, the identity of client shall be established through the production of officially valid documents, as referred to in sub rule ( 2) of rule 9"; and

(v) foreign remittance shall not be allowed to be credited into a small account unless the identity of the client is fully established through the production of officially valid documents, as referred to in sub-rule (2) of rule 9."

(Notification No.14/2010/F.No.6/2/2007-ES)

**(S.R. Meena)**  
**Under Secretary**

**Note :** The principal rules were published in Gazette of India, Extraordinary, Part-II, Section 3, Sib-Section (i) vide number G.S.R.444 (E), dated the 1st July, 2005 and subsequently amended by number G.S.R.717 (E), dated the 13th December, 2005, number G.S.R. 389(E), dated the 24th May, 2007, number G.S.R. 816(E), dated the 12th November, 2009, number G.S.R.76 (E), dated the 12th February, 2010 and number G.S.R. 508(E), dated the 16th June, 2010.

**APPENDIX**

**Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) Standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002**

**List of Circulars consolidated in the Master Circular**

<b>No.</b>	<b>Circular No</b>	<b>Date</b>	<b>Subject</b>
1	<a href="#">UBD.BPD(PCB)Cir.No.54/14.01.062/2012-13</a>	06.06.2013	Know Your Customer (KYC) / Anti-Money Laundering (AML) / Combating of Financing of Terrorism (CFT) Guidelines - Unique Customer Identification Code (UCIC) for Banks' Customers in India - Primary (Urban) Co-operative Banks
2	<a href="#">UBD.BPD(PCB)Cir.No.46/14.01.062/2012-13</a>	03.04.2013	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Measures / Combating of Financing of Terrorism (CFT) / Obligations of Banks under Prevention of Money Laundering Act (PMLA), 2002 Simplifying Norms for Self Help Groups - Primary (Urban) Co-operative Banks
3	<a href="#">UBD.BPD(PCB)Cir.No.39/14.01.062/2012-13</a>	07.03.2013	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Measures / Combating of Financing of Terrorism (CFT) / Obligations of Banks under Prevention of Money Laundering Act (PMLA), 2002 - Primary (Urban) Co-operative Banks
4	<a href="#">UBD.CO.PCB.Cir.No.37/14.01.062/2012-13</a>	25.02.2013	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Measures - Combating of Financing of Terrorism (CFT) / Obligations of Banks under Prevention of Money Laundering Act (PMLA), 2002
5	<a href="#">UBD.BPD(PCB)Cir.No.34/14.01.062/2012-13</a>	28.01.2013	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Measures / Combating of Financing of Terrorism (CFT) / Obligations of Banks under Prevention of Money Laundering Act (PMLA), 2002
6	<a href="#">UBD.BPD(PCB)Cir.No.28/14.01.062/2012-13</a>	19.12.2012	Know Your Customer (KYC) norms / Anti-Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT) / Obligation of banks under Prevention of Money Laundering Act (PMLA), 2002
7	<a href="#">UBD.BPD.(PCB).Cir.No.14/14.01.062/2012-13</a>	09.10.2012	Know Your Customer (KYC) / Anti-Money Laundering (AML) / Combating of

			Financing of Terrorism (CFT) Guidelines - Unique Customer Identification Code (UCIC) for banks' customers in India - Primary (Urban) Co-operative Banks
8	<a href="#">UBD.BPD.(PCB).Cir.No.8/14.01.062/2012-13</a>	13.09.2012	Know Your Customer (KYC) / Anti-Money Laundering (AML) / Combating of Financing of Terrorism (CFT) - Risk Categorization and Updation of Customer Profiles - Primary (Urban) Co-operative Banks
9	<a href="#">UBD.CO.BPD(PCB).No.34/12.05.001/2011-12</a>	11.05.2012	Know Your Customer (KYC) Guidelines – Accounts of Proprietary Concerns
10	<a href="#">UBD.CO.BPD.No.24/12.05.001/2011-12</a>	05.03.2012	Know Your Customer (KYC) norms/Anti Money Laundering Standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under Prevention of Money Laundering Act (PMLA), 2002- Assessment and monitoring of risk
11	<a href="#">UBD.BPD.(PCB).Cir.No.20/14.01.062/2011-12</a>	01.03.2012	Implementation of Section 51A of UAPA, 1967 – Splitting of UNSC 1267 Committee's list of individuals and entities linked to Al Qaida and Taliban
12	<a href="#">UBD.CO.BPD.No.10/12.05.001/2011-12</a>	09.11.2011	Prevention of Money Laundering Act, 2002 (PMLA) and Rules thereunder – Reporting of CTR, STR etc. to FIU-India- Reporting format under project FINnet
13	<a href="#">UBD.BPD.PCB.No.8/12.05.001/2011-12</a>	09.11.2011	Know Your Customer Norms – Letter issued by Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhar number
14	<a href="#">UBD.CO.BPD.(PCB).Cir.No.9/14.01.062/2010-11</a>	02.05.2011	Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) – Standards – Primary (Urban) Co-operative Banks
15	<a href="#">UBD.CO.BPD.(PCB).Cir.No.8/14.01.062/2010-11</a>	02.05.2011	Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) – Standards – Primary (Urban) Co-operative Banks
16	<a href="#">UBD.CO.BPD.(PCB).Cir.No.7/14.01.062/2010-11</a>	17.03.2011	Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT)
17	<a href="#">UBD.CO.BPD.(PCB)Cir.No.6/14.01.062/2010-11</a>	17.03.2011	Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) - Standards
18	<a href="#">UBD.BPD (PCB) No.38/12.05.001/2010-11</a>	15.03.2011	Amendments to Prevention of Money Laundering Rules, 2005
19	<a href="#">UBD.BPD(PCB).No.37/12.05.001/2010-11</a>	18.02.2011	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money



			Laundering Act, 2002
20	<a href="#">UBD. CO. BPD. No. 35/12.05.001/2010-11</a>	10.01.2011	Opening of bank accounts – Salaried employees
21	UBD. BPD. (PCB).No. 32 / 12.05.001/2010-11	28.12.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money Laundering Act, 2002
22	<a href="#">UBD. BPD. (PCB). Cir. No. 17 / 14.01.062/2010-11</a>	25.10.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering Standards (AML) / Combating Financing of Terrorism
23	<a href="#">UBD. BPD. (PCB). Cir. No.12 / 12.05.001/2010-11</a>	15.09.2010	Prevention of Money Laundering ( Maintenance of the Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing information and Verification and Maintenance of records of the identity of the Clients of the Banking companies, Financial Institutions and Intermediaries) Second Amendment Rules, 2010 – Obligation of banks
24	<a href="#">UBD. BPD. (PCB) No. 11 /12.05.001/2010-11</a>	25.08.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money Laundering Act, 2002
25	<a href="#">UBD. BPD. (PCB) No. 10/12.05.001/2010-11</a>	23.08.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money Laundering Act, 2002
26	<a href="#">UBD. BPD. (PCB) No. 9 / 12.05.001/2010-11</a>	23.08.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money Laundering Act, 2002
27	<a href="#">UBD. BPD. (PCB) Cir. No. 7 / 14.01.062/2010-11</a>	12.08.2010	Know Your Customer (KYC) Norms / Anti-Money Laundering Standards (AML) / Combating Financing of Terrorism
28	<a href="#">UBD.BPD(PCB)Cir.No. 71/12.05.001/2009-10</a>	15.06.2010	Prevention of Money Laundering ( Maintenance of the Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing information and Verification and Maintenance of records of the identity of the Clients of the Banking companies, Financial Institutions and Intermediaries)Amendment Rules, 2010 – Obligation of banks / All India Financial Institutions
29	<a href="#">UBD.BPD.</a>	01.04.2010	Know Your Customer (KYC) Norms / Anti-

	<a href="#">CO.53/14.01.062/2009-2010</a>		Money Laundering Standards (AML) / Combating Financing of Terrorism
30	<a href="#">UBD. BPD.CO.NSB 1/38/1203.000/2009-10</a>	23.12.2009	Know Your Customer (KYC) Guidelines – Accounts of Proprietary Concern
31	UBD.(PCB) CO. BPD.Cir.No.36/14.01.062/2009-10	18.12.2009	Know Your Customer (KYC) Norms / Anti Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT)
32	UBD.(PCB) CO. BPD.Cir.No. 35/14.01.062/2009-10	17.12.2009	Know Your Customer (KYC) Norms / Anti Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT)
33	UBD.(PCB). CO. BPD.Cir. No.33 /14.01.062/2009-10	17.12.2009	Know Your Customer (KYC) Norms /Anti-Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT)
34	<a href="#">UBD.CO.BPD.PCB.Cir.No. 23/12.05.001/2009-10</a>	16.11.2009	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating Financing of Terrorism (CFT) / Obligation of Banks under Prevention of Money Laundering Act, 2002 – Urban Cooperative Banks
35	<a href="#">UBD.CO.BPD.PCB.Cir.No. 21/12.05.001/2009-10</a>	16.11.2009	Combating Financing of Terrorism – Unlawful Activities (Prevention) Act, 1967 – Obligation of Banks – Urban Cooperative Banks
36	<a href="#">UBD. BPD.CO./NSB1/11/12.03.000/2009-10</a>	29.09.2009	Know Your Customer (KYC) Guidelines – Accounts of Proprietary Concern
37	<a href="#">UBD.CO. BPD.PCB.Cir.No. 9/12.05.001/2009-10</a>	16.09.2009	Adherence to KYC/AML guidelines while opening and conduct of the accounts of Multi Level Marketing Firms
38	<a href="#">UBD. CO. BPD (PCB) No. 1/12.05.001/2008-09</a>	02.07.2008	Prevention of Money Laundering Act, 2002 – Obligation of banks in terms of Rules notified thereunder – UCBs
39	<a href="#">UBD.CO.BPD.(PCB). No. 32 /09.39.000/2007-08</a>	25.02.2008	Know Your Customer (KYC) Norms / Ant-Money Laundering (AML) Standards / Combating of Financing of Terrorism
40	<a href="#">UBD. CO. BPD. (PCB) No. 45/12.05.001/2006-07</a>	25.05.2007	Know Your Customer (KYC) Norms / Anti-Money Laundering (AML) Standards / Combating of Financing of Terrorism (CFT) Wire Transfers
41	<a href="#">UBD.BPD. Cir. No.38 /09.16.100/2005-06</a>	21.03.2006	Prevention of Money Laundering Act, 2002 – Obligation of banks in terms of Rules notified thereunder – UCBs
42	<a href="#">UBD.BPD.PCB.Cir.11 /09.161.00/2005-06</a>	23.08.2005	Know Your Customer Guidelines – Anti-Money laundering Standards – UCBs
43	<a href="#">UBD.PCB.Cir.No.6 /09.161.00/2005-06 dated August 3, 2005</a>	03.08.2005	Facilitating opening of bank accounts for flood affected persons
44	<a href="#">UBD.PCB.Cir. 30/09.161.00/2004-05</a>	15.12.2004	Know Your Customer (KYC) Guidelines – Anti-Money Laundering Standards – UCBs

45	<a href="#">UBD.BPD.PCB.Cir.02/09.1 61.00/2004-05</a>	09.07.2004	'Know Your Customer' Guidelines - Compliance
46	<a href="#">UBD.BPD.PCB.Cir. 48/09.161.00/2003-04</a>	29.05.2004	'Know Your Customer' Guidelines – Compliance
47	<a href="#">UBD.No.BPD.PCB.Cir. 41/09.161.00/2003-04</a>	26.03.2004	'Know Your Customer' Guidelines – Compliance
48	<a href="#">UBD.No.DS.PCB.Cir.17/13 .01.00/2002- 03</a>	18.09.2002	Guidelines on 'Know Your Customer 'Norms and 'Cash Transactions'