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17 March 2008

Circular No. 39 /DoS 6 /2008

1. The Managing Directors
All State Cooperative Banks in the country
2. The Chief Executive Officers
All District Central Cooperative Banks in the country

Dear Sir

**'Know Your Customer' (KYC) Guidelines -
Anti-Money Laundering (AML) Standards**

We invite a reference to the RBI circular No.RBI/2004-05/368 and 133 dated 18 February 2005 and 23 August 2005 respectively wherein you were advised to ensure that a proper policy frame-work on 'Know Your Customer' (KYC) norms and Anti-Money Laundering (AML) measures is formulated and put in place with the approval of your Board of Directors within 3 months from the date of this circular. It was envisaged that all the banks should be fully compliant with the provisions of the said circular of RBI before 31 December 2005.

2. In terms of the above circular, the banks were required to lay down a clear Customer Acceptance Policy (CAP), based on the risk categorisation and advise their branches to prepare suitable customer profiles containing information relating to customer's identity, social / financial status, nature of business activity, information about his clients' business and their location, etc. The banks were also required to apply enhanced due diligence for high risk customers. Further, the banks were also required to have an elaborate Customer Identification Procedure (CIP). We also presume that your bank would have initiated necessary action in this direction and put in place suitable internal Guidelines, based on the experience of dealing with the clients under various categories as per Annexure-II to the RBI's circular referred to above.

3. As you are aware, close and continuous monitoring is an essential element of effective KYC procedures. The banks were expected to put in place a system of periodical review of risk categorisation of accounts and application of enhanced due diligence measures. We also invite your attention to Section 12 of the Prevention of Money Laundering Act, 2002, in terms of which the banks are required to have a record of transactions in the accounts preserved and maintained. Further, banks were also required to report transactions of suspicious nature and/or any other type of transactions notified under Section 12 of the PML Act, 2002 to the appropriate Law Enforcement Authority. The Guidelines also envisage that the banks should ensure that their branches continue to maintain proper record of all cash transactions (deposits and withdrawals) of Rs.10 lakh and above. The internal monitoring system should have an in-built procedure for reporting of such transactions and those of suspicious nature to the Controlling / Head Office, on a fortnightly basis. It has been brought to our notice by the Additional Director, Financial Intelligence Unit (FIU) - India that the compliance to the above Guidelines by the cooperative banks has been far from satisfactory.

4. In view of what has been indicated above, you are requested to furnish us the following information under advice to our concerned Regional Office :

- (i) Whether a comprehensive policy on KYC and AML duly approved by the Board of Directors has been put in place;
- (ii) Whether suitable instructions have been issued to the branches for Customer Acceptance policy and Customer Identification Procedure;
- (iii) Whether all your branches are submitting Cash Transaction Reports (CTR) and Suspicious Transaction Reports (STR) to the FIU-India, on a regular basis. If your bank is sending a consolidated position, the position upto which such reporting had been done by your bank may be indicated. A copy of each of the above latest Reports may also be sent to us for our information and record as also to enable us to furnish suitable compliance on a consolidated basis to the FIU-India;
- (iv) The procedure followed for remittance of funds by way of DD or any other mode for values of Rs.50,000/- and above by your branches;
- (v) Adherence to the provisions of Foreign Contribution and Regulation Act, 1976 wherever applicable, by your bank;
- (vi) The name and designation of the senior officer who has been designated as Principal Officer, to be responsible for monitoring and reporting of all transactions and sharing of information as required under the law may please be intimated to us together with his contact number (phone no. / mobile no., etc.).

5. As the contravention or non-compliance of the KYC norms and Anti- Money Laundering Standards will attract penalties under the relevant provisions of the Banking Regulation Act, you are, requested to bestow your personal attention in the matter and ensure that the bank strictly abides by the relevant Guidelines by toning up internal audit / inspection machinery. The Internal Audit / Inspection Department may be advised to cover these aspects in more detail during the internal inspections / audit of the branches. The consolidated findings of such internal inspection / audit may be placed before the Board of Directors for their information and record. We shall be glad to be advised on the above under advice to our concerned Regional Offices.

6. Please acknowledge receipt.

Yours faithfully

Sd/-

(B.B. Mohanty)

Chief General Manager

