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Confidential

Circular No.151 /DoS.28 /2009

11 September 2009

The Chairmen
All Regional Rural Banks in the country

Dear Sir

**Anti-Money Laundering (AML) /Combating Financing of
Terrorism (CFT) - Review meeting of RRBs' Chairmen**

As you are aware, at the instance of the Director, Financial Intelligence Unit, New Delhi (FIU-IND) NABARD has organised one day Review Meeting for all the RRBs in Uttar Pradesh and Madhya Pradesh States on 06 and 08 August 2009 at Lucknow and Bhopal respectively. On 21 August 2009 another round of Review Meeting of Chairmen of 35 RRBs functioning in the entire North, North Eastern and Eastern States was organised at Jaipur followed by the Review meeting of 30 RRBs functioning in the entire Southern States, Maharashtra, Gujarat, Orissa and Chhattisgarh States was held on 28 August 2009 at Chennai. Besides, the Regional Office Incharges of the respective Centres, representatives from DoS, Head Office and local RPCD, RBI (excepting at Chennai) were also present in the above Review Meets.

2. During the course of the above Review Meetings, the participants were explained in detail the various steps initiated by NABARD in creating awareness amongst the banks about the instructions issued on Know Your Customer (KYC)/Anti-Money Laundering (AML) Standards as also Counterfeit Currency notes by the RBI from time to time. Further, Additional Directors from FIU-IND guided the deliberations in these workshops by explaining the role and expectations from banks under PMLA, 2005, reviewed the position regarding the submission of Cash Transaction Reports (CTRs), Suspicious Transaction Reports (STRs) and Counterfeit Currency Reports to FIU-IND.

3. During the deliberations in the Review Meetings, the following issues came to fore, which require immediate attention of the top management of all RRBs.

- (i) Despite RBI/NABARD's clear cut instructions, most of the RRBs in the country had not so far framed their own KYC/AML Policy duly approved by their Boards and circulated the same to their branches for immediate adoption.
- (ii) Many of the RRBs were yet to put in place appropriate KYC/AML policy encompassing Customer Identification Process, Classification of Customers as per banks' risk perception, risk management architecture, risk mitigation measures, review of periodical reporting to the Board, compliance with the regulatory prescriptions issued by the Regulator from time to time. Similarly, they were not bringing the banks' compliance level to the notice of their Board of Directors on a regular basis, as required.

- (iii) Some of the RRBs are yet to appoint a senior officer as the Principal Officer for ensuring timely and proper submission of CTRs , STRs and CCRs as also for coordinating with FIU-IND and regulatory/ supervisory authorities on matters connected with KYC/AML Standards.
- (iv) Excepting 5 RRBs in the country, no other RRBs had so far submitted Suspicious Transaction Reports (STRs) as required to FIU-IND.
- (v) Many of the RRBs were found to be submitting the Cash Transaction Reports (CTRs) in Manual form as against electronic mode. In this connexion, the attention of the Chairmen were drawn to the fact that FIU has been providing utility software facility through their web site free of cost. The banks were advised to make use the 'Utilities' available in FIU web site for ensuring timely and proper submission of CTRs, STRs and CCRs in electronic format.
- (vi) All the participants were advised to send 'NIL' statements in case of no CRTs and Cars on a monthly basis to FIU-IND.
- (vii) As regards nature of suspicious transactions, the Additional Director, FIU-IND gave illustrative hints to the participants. In addition, their attention was drawn to the RBI's Circular dated 18 June 2008 wherein certain illustrative cash transactions of suspicious nature were given for the guidance of banks. The banks were also advised to report the fraud cases already perpetrated in their banks under STRs hence forth.
- (viii) As the regulatory prescriptions on KYC/AML/CFT standards are being issued by the RBI under Section 35A of the Banking Regulation Act, 1949, non-compliance or improper compliance of these instructions would make the RRBs liable for initiating penal action against those banks under the provisions of the Section 35A of the Act, *ibid*.
- (ix) In addition to the Regulator's penal action, the FIU-IND can also impose penalty ranging from Rs.10,000/- to Rs. 1.00 lakh per occasion of default/non-compliance/improper submission of CTRs, CCRs and STRs. As any penal action on the bank by the RBI/FIU-IND, would result in reputational risk and consequent loss of business, the bank should strictly comply with the obligations prescribed under the Act.
- (x) All the Inspecting Officers of NABARD have been advised to examine the compliance of the regulatory prescriptions by the banks during the course of on-site statutory inspections of RRBs and directed to recommend necessary penal action against them in case of non-compliance/improper compliance and non-submission of CTRs, CCRs and STRs to FIU-IND hence forth.
- (xi) Until recently, both NABARD and FIU-IND have been focussing on creating awareness amongst the banks. Now, the focus is getting shifted to compliance. Therefore, banks need to take steps to create awareness amongst all the members of staff and their customers about KYC/AML standards.

4. In view of what has been indicated above, you are requested to bestow your personal attention on the above aspects more critically and place a detailed Memorandum to the Board of Directors indicating the compliance level in the ensuing Board meeting clearly spelling out whether the bank has prepared its own KYC/AML policy, risk management measures, review mechanism, etc., besides indicating the month-wise position of submission of CTRs, CCRs and STRs to FIU-IND and about the appointment of Principal Officer in the bank. You should also undertake a relook on the existing Internal Branch Inspection formats for ensuring adequate coverage of the above aspects during Internal inspections. The consolidated findings of such inspections may be placed before the Board of Directors on a quarterly basis.

5. Kindly acknowledge receipt and advise us of the action taken in this regard by return mail/post.

Yours faithfully

Sd/-

(G.C. Panigrahi)
Chief General Manager