

June 21, 2004

The Chief Executives of all Commercial Banks
(excluding RRBs)

Dear Sir,

Guidelines on KYC Norms - Existing Accounts

1. Please refer to our circular DBOD.No.AML.BC.18/14.01.001/2002-03 dated August 16, 2002 on the above subject. It was advised in paragraph 3 of the above circular that in case of any omission in respect of the existing accounts, KYC procedures may be completed at the earliest. Further, vide our circulars DBOD.AML.No.47/14.01.001/2003-04 and 129/14.01.001/2003-04 dated November 24 and December 16, 2003 respectively, banks were advised to complete the KYC procedure in regard to existing accounts as per the time scheduled prescribed therein.
2. In this connection, please refer to paragraph No.126 of the annual policy statement for the year 2004-05 forwarded to you along with Governor's letter No.MPD.BC.249/07.01.279/2003-04 dated May 18, 2004 (copy of the paragraph enclosed).
3. We presume that you have already formulated a KYC policy in consultation with your Board, which should be adhered to for opening all new accounts. However, with a view to ensuring that existing small account holders are not inconvenienced and the KYC procedure is completed in time, it has been decided that banks may limit the application of KYC procedures to existing accounts where the credit or debit summation for the financial year ended March 31, 2003 is more than Rs.10 lakh or where unusual transactions are suspected. This process may be completed by December 31, 2004.
4. Banks may, however, ensure that KYC procedures are applied to all existing accounts of trusts, companies/firms, religious/charitable organisations and other institutions or where the accounts are opened through a mandate or power of attorney. The KYC procedures may be applied diligently to suit local conditions and completed by December 31, 2004.

Yours faithfully,

(Prashant Saran)
Chief General Manager

(I) KYC and Privacy of Customer Relationship

126. In the recent years, prevention of money laundering has assumed greater importance. In this direction, adoption of Know Your Customer (KYC) principle by banks is a step further towards combating money laundering and financing of terrorism. In August 2002, banks were advised to complete an appropriate KYC procedure for establishing identity by means of suitable documents and to ensure that adoption of such a procedure does not lead to denial of access to banking services for the general public. Further, in December 2002, banks were advised to review the accounts opened prior to August 2002 for compliance with the KYC norms and take necessary steps to complete the work in respect of all accounts in a phased manner by December 2004. In this context, it is advised that:

- Banks may fully adhere to the KYC policy adopted by their Boards for opening new accounts; they may limit its application to the existing accounts in such cases where the summation of the credit/debit transactions is more than Rs.10 lakh or where the banks suspect any unusual transactions.
- Banks may conduct KYC in all accounts belonging to trusts, intermediaries or where the accounts are operated through a mandate or power of attorney. The KYC procedure may be applied diligently to suit local conditions and should be completed by December 2004