

June 18, 2008

The Chairmen of all Regional Rural Banks

Dear Sir

Prevention of Money Laundering Act, 2002 – Obligation of banks in terms of Rules notified there under

Please refer to our circular RPCD.CO. RRB.AML.BC.68/ 03.05.33(E)/2005-06 dated March 9, 2006. In Paragraph 3 of the said circular, it was advised that banks are required to maintain and preserve information in respect of transactions **with its client referred to in rule 3** in hard and soft copies. It is further clarified that banks should also report information in respect of all transactions referred to in **Rule 3 *ibid*** to the Director, Financial Intelligence Unit-India (FIU-IND).

2. In terms of instructions contained in paragraph 2 of the guidelines on 'Know Your Customer (KYC) Guidelines- Anti-Money Laundering Standards enclosed to our circular dated February 18, 2005, RRBs are required to prepare a profile for each customer based on risk categorization. Further, vide paragraph 4 of our circular dated February 27, 2008, the need for periodical review of risk categorization 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 transactions.

3. In paragraph 6 of our circular dated March 9, 2006, referred to above, RRBs were advised to initiate urgent steps to ensure electronic filing of cash transaction report (CTR) and Suspicious Transaction Reports (STR) to FIU-IND. It has been reported by FIU-IND that many banks are yet to file electronic reports. It is, therefore, advised that in case of banks, where all the branches are not yet fully computerized, the Principal Officer of the bank should cull out the transaction details from branches which are not 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 on their website <http://fiuindia.gov.in>.

4. In paragraph 6(l)(a) of our circular dated March 9, 2006, referred to above, RRBs were advised to make Cash Transaction Reports (CTR) to FIU-India for every month latest by 15th of the succeeding month. It is further clarified that cash transaction reporting by branches to their Principal Officer should invariably be submitted on monthly basis (**not on fortnightly basis**) and the Principal Officer, in turn, should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

5. In regard to CTR, it is reiterated that the cut-off limit of Rupees ten lakh is applicable to integrally connected cash transactions also. Further, after consultation with FIU-IND, it is clarified that:

a) For determining integrally connected cash transactions, banks should take into account all individual cash transactions **in an account during a calendar month**, where either debit or credit summation, computed separately, exceeds Rupees ten lakh during the month. However, while filing CTR, details of individual cash transactions below rupees fifty thousand may not be indicated. Illustration of integrally connected cash transactions is furnished in Annex-I to this circular.

b) 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

c) 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 format (Counterfeit Currency Report – CCR) as per Annex-II and III. Electronic data structure has been furnished in Annex-IV to enable banks to generate electronic CCRs. 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.

6. In paragraph 4 of the Guidelines on KYC Norms/AML Measures annexed to our circular RPCD.No.RRB.BC.81/03.05.33 (E)/2004-05 dated February 18, 2005, RRBs 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. These records are required to be preserved for ten years as is required under PMLA, 2002. Such records and related documents should be made available to help auditors in their work relating to scrutiny of transactions and also to Reserve Bank/other relevant authorities.

7. In paragraph 7 of our March 9, 2006 circular, RRBs have been advised that the customer should not be tipped off on the STRs made by them to FIU-IND. 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.

8. While making STRs, RRBs should be guided by the definition of 'suspicious transaction' as contained in Rule 2(g) of Rules *ibid*. It is further clarified that RRBs 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 .

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

10. These guidelines are issued under Section 35A of the Banking Regulation Act, 1949 and Rules *ibid*. Any contravention of the said guidelines may attract penalties under the relevant provisions of the Act.

Yours faithfully

(G.Srinivasan)
Chief General Manager-in-Charge

An Indicative List of Suspicious Activities

Transactions Involving Large Amounts of Cash

- (i) Exchanging an unusually large amount of small denomination notes for those of higher denomination;
- (ii) Purchasing or selling of foreign currencies in substantial amounts by cash settlement despite the customer having an account with the bank;
- (iii) Frequent withdrawal of large amounts by means of cheques, including traveller's cheques;
- (iv) Frequent withdrawal of large cash amounts that do not appear to be justified by the customer's business activity;
- (v) Large cash withdrawals from a previously dormant/inactive account, or from an account which has just received an unexpected large credit from abroad;
- (vi) Company transactions, both deposits and withdrawals, that are denominated by unusually large amounts of cash, rather than by way of debits and credits normally associated with the normal commercial operations of the company, e.g. cheques, letters of credit, bills of exchange etc.;
- (vii) Depositing cash by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial.

Transactions that do not make Economic Sense

- (i) A customer having a large number of accounts with the same bank, with frequent transfers between different accounts;
- (ii) Transactions in which assets are withdrawn immediately after being deposited, unless the customer's business activities furnish a plausible reason for immediate withdrawal.

Activities not consistent with the Customer's Business

- (i) Corporate accounts where deposits or withdrawals are primarily in cash rather than cheques.
- (ii) Corporate accounts where deposits & withdrawals by cheque/telegraphic transfers/foreign inward remittances/any other means are received from/made to sources apparently unconnected with the corporate business activity/dealings.
- (iii) Unusual applications for DD/TT/PO against cash.
- (iv) Accounts with large volume of credits through DD/TT/PO whereas the nature of business does not justify such credits.
- (v) Retail deposit of many cheques but rare withdrawals for daily operations.

Attempts to avoid Reporting/Record-keeping Requirements

- (i) A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed.
- (ii) Any individual or group that coerces/induces or attempts to coerce/induce a bank employee not to file any reports or any other forms.
- (iii) An account where there are several cash deposits/withdrawals below a specified threshold level to avoid filing of reports that may be necessary in case of transactions above the threshold level, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.

Unusual Activities

- (i) An account of a customer who does not reside/have office near the branch even though there are bank branches near his residence/office.
- (ii) A customer who often visits the safe deposit area immediately before making cash deposits, especially deposits just under the threshold level.
- (iii) Funds coming from the list of countries/centers which are known for money laundering.

Customer who provides Insufficient or Suspicious Information

- (i) A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior banking relationships, officers or directors, or its locations.
- (ii) A customer/company who is reluctant to reveal details about its activities or to provide financial statements.
- (iii) A customer who has no record of past or present employment but makes frequent large transactions.

Certain Suspicious Funds Transfer Activities

- (i) Sending or receiving frequent or large volumes of remittances to/from countries outside India.
- (ii) Receiving large TT/DD remittances from various centers and remitting the consolidated amount to a different account/center on the same day leaving minimum balance in the account.
- (iii) Maintaining multiple accounts, transferring money among the accounts and using one account as a master account for wire/funds transfer.

Certain Bank Employees arousing Suspicion

- (i) An employee whose lavish lifestyle cannot be supported by his or her salary.
- (ii) Negligence of employees/willful blindness is reported repeatedly.

Some examples of suspicious activities/transactions to be monitored by the operating staff-

- Large Cash Transactions
- Multiple accounts under the same name
- Frequently converting large amounts of currency from small to large denomination notes
- Placing funds in term Deposits and using them as security for more loans
- Large deposits immediately followed by wire transfers
- Sudden surge in activity level
- Same funds being moved repeatedly among several accounts
- Multiple deposits of money orders, Banker's cheques, drafts of third parties
- Transactions inconsistent with the purpose of the account
- Maintaining a low or overdrawn balance with high activity

Check list for preventing money-laundering activities:

- A customer maintains multiple accounts, transfer money among the accounts and uses one account as a master account from which wire/funds transfer originates or into which wire/funds transfer are received (a customer deposits funds in several accounts, usually in amounts below a specified threshold and the funds are then consolidated into one master account and wired outside the country).
- A customer regularly depositing or withdrawing large amounts by a wire transfer to, from, or through countries that are known sources of narcotics or where Bank secrecy laws facilitate laundering money.
- A customer sends and receives wire transfers (from financial haven countries) particularly if there is no apparent business reason for such transfers and is not consistent with the customer's business or history.
- A customer receiving many small incoming wire transfer of funds or deposits of cheques and money orders, then orders large outgoing wire transfers to another city or country.
- A customer experiences increased wire activity when previously there has been no regular wire activity.
- Loan proceeds unexpectedly are wired or mailed to an offshore Bank or third party.

- A business customer uses or evidences or sudden increase in wired transfer to send and receive large amounts of money, internationally and/ or domestically and such transfers are not consistent with the customer's history.
- Deposits of currency or monetary instruments into the account of a domestic trade or business, which in turn are quickly wire transferred abroad or moved among other accounts for no particular business purpose.
- Sending or receiving frequent or large volumes of wire transfers to and from offshore institutions.
- Instructing the Bank to transfer funds abroad and to expect an equal incoming wire transfer from other sources.
- Wiring cash or proceeds of a cash deposit to another country without changing the form of the currency

- Receiving wire transfers and immediately purchasing monetary instruments prepared for payment to a third party.
- Periodic wire transfers from a person's account/s to Bank haven countries.
- A customer pays for a large (international or domestic) wire transfers using multiple monetary instruments drawn on several financial institutions.
- A customer or a non-customer receives incoming or makes outgoing wire transfers involving currency amounts just below a specified threshold, or that involve numerous Bank or travelers cheques
- A customer or a non customer receives incoming wire transfers from the Bank to 'Pay upon proper identification' or to convert the funds to bankers' cheques and mail them to the customer or non-customer, when
 - The amount is very large (say over Rs.10lakhs)
 - The amount is just under a specified threshold (to be decided by the Bank based on local regulations, if any)
 - The funds come from a foreign country or
 - Such transactions occur repeatedly.
- A customer or a non-customer arranges large wire transfers out of the country which are paid for by multiple Bankers' cheques (just under a specified threshold)

A Non-customer sends numerous wire transfers using currency amounts just below a specified threshold limit.