

July 2, 2008

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

Dear Sir,

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

Please refer to our circular UBD. CO. BPD. (PCB) No. 38 / 09.16.100/2005-06 dated March 21, 2006 on the captioned subject. In paragraphs 4 & 5 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. It is advised that the same may be maintained 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" norms and Anti-Money Laundering Measures forwarded vide our circular UBD. PCB. Cir. 30/09.161.00/2004-05 dated December 15, 2004, UCBs are required to prepare a profile for each customer based on risk categorization. Further, the need for periodical review of risk categorization of accounts has been emphasized vide para 4 of our circular dated February 25, 2008. 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 21, 2006, referred to above, banks 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(a) of our circular dated March 21, 2006, referred to above, banks were advised to submit 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 Annex-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 UBD. PCB. Cir. 30/09.161.00/2004-05 dated December 15, 2004, banks were 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 circular dated March 21, 2006, banks have been advised that the customer should not be tipped off on the STRs filed by them with 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 filing STRs, banks should be guided by the definition of 'suspicious transaction' as contained in Rule 2(g) of Rules *ibid*. It is further clarified that Banks should submit 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, banks may consider the indicative list of suspicious activities contained in Annex-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 (AACS) and Rule 7 *ibid*. Any contravention of the said guidelines may attract penalties under the relevant provisions of this Act.

Yours faithfully,

(A. K. Khound)
Chief General Manager-in-Charge

Illustration of Integrally connected cash transaction

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

Date	Mode	Dr (in Rs.)	Cr (in Rs.)	Balance (in Rs.) BF - 8,00,000.00
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		10,10,000.00	6,00,000.00	

i) 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 lakhs. However, the bank should report only the debit transaction taken place on 02/04 & 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/-.

ii) 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.