

Summary of Order in Original No. 26/DIR/FIU-IND/2022 in the matter of Jammu & Kashmir Bank (“J&K Bank” or “the Bank”),

In the present matter, it was brought to the notice of FIU-IND by revenue authorities that, in course of an unrelated investigation, KYC documents accepted by the Bank were observed to be deficient in nature. For instance, it was noted that address proof provided by the customer contained a generic (incomplete) address, i.e., did not contain any specific house number. Further, it was noted that the filled Account Opening Form produced by the Bank contained an incomplete address as well. It also appeared to be the case that the Bank had failed to take any residential address proof relating to the location where the customer was stated to be employed (as evidenced by letter of employment submitted by the customer).

Further, it was brought to the notice of FIU-IND that from examination of the documents submitted at the time of opening of the account it was seen that the customer was stated to be a salaried employee. However, the same account saw sizeable credit and debit transactions far exceeding the declared salary within 9 months from opening. Based on the facts and circumstances, it appeared to be the case that transactions of such magnitude had no economic rationale when seen along with the declared profile of the customer at the time of opening of the account.

As the observations detailed above suggested that the Bank may have failed to meet its obligations (i) to detect and report prescribed transactions, and (ii) to conduct robust KYC and customer due diligence, it was decided to look further into the matter. In order to do the same, it was required that the same allegations be put to the Bank for its observations and submissions. In view of the foregoing, a Show Cause Notice was issued to the Bank calling upon it to show cause as to why suitable directions including imposition of penalty should not be passed against it for (i) its potential failure to detect and file STRs in respect of the account of the customer, and (ii) its potential failure to conduct robust KYC and due diligence of the customer’s account.

In response to the note, the Bank provided its detailed written submissions. Further, the Bank was provided an opportunity to advance oral submissions at personal hearing before Director, FIU-IND. After considering the written and oral submissions of the Bank, Director, FIU-IND, based on the material available on record, found that the charges against the Bank were substantiated. Consequently, vide order dated November 1, 2022 in exercise of his powers under Section 13, PMLA, it was found to be appropriate to:

- (i) In respect of the failure of the Bank to file STR in respect of transactions in the referenced account, levy a monetary penalty of Rs. 1,00,000 (Rupees One Lakh Only) in respect of the violation of obligations under Section 12(1)(a) and (b) of the Act read with Rule 3(1)(D), 7(2) and 7(4) of the PML Rules
- (ii) In respect of the failure of the Bank to conduct effective onboarding due diligence in connection with the above account, levy a monetary penalty of Rs. 1,00,000 (Rupees One Lakh Only) in respect of the violation of obligations under Section 12(1) (c) of the Act read with Rule 9(1) of the PML Rules.
- (iii) In respect of failure of the Bank to conduct effective onboarding due diligence in connection with the above account, levy a monetary penalty of Rs. 1,00,000 (Rupees One

Lakh Only) in respect of the Bank's non-compliance with Section 12(1) (c) of the Act read with Rule 9(12)(i) of the PML Rules.

- (iv) In addition, issue specific remedial directions to the Bank to take certain actions, in a time-bound manner, to mitigate risks flowing from the above contraventions.

Disclaimer: The summary of the referenced order of Director, FIU-IND is only representational in nature. It does not hold any legal significance and cannot be relied upon or referred to as precedent in any other case.