

AML/CFT Guidelines
for
Multi-State Co-Operative Societies



Table of Contents

Acronyms	3
1. Background	4
2. Scope	5
3. Effective Date	5
4. General Obligations of Multi-State Co-Operative Societies.	5
4.1. Reporting of Reportable Transactions	5
4.2. Internal Policies and Procedures to Combat Money Laundering, Counter Terrorist Financing and Combat Proliferation Financing	5
4.3. Registration of Reporting Entities, Appointment of Designated Director and Principal Officer	5
4.4. Training	7
4.5. Periodic Review	7
4.6. Know Your Customer (KYC) Norms	7
4.7. Client due Diligence (CDD) Norms	7
4.8. Enhanced Due Diligence (EDD) Norms	8
4.9. EDD with respect to high-risk jurisdictions/ persons/ entities	8
4.10. Sanctions screening for notified activities	9
5. Reporting Obligations of MSCSs	9
6. Prohibition on Tipping-off	10
7. Maintenance of Records	11
8. Risk Assessment	11



Acronyms

Term	Definition
AML	Anti-Money Laundering
CFT	Countering the Financing of Terrorism
CDD	Customer Due Diligence
CPF	Combating Proliferation Financing
CKYCR	Central Know Your Customer Registry
CRS	Common Reporting Standards
DNFBP	Designated Non-Financial Business and Profession
EDD	Enhanced Due Diligence
FATF	Financial Action Task Force
FIU-IND	Financial Intelligence Unit – India
KYC	Know Your Customer
ML/TF/PF	Money Laundering, Terrorism Financing and Proliferation Financing
NRA	National Risk Assessment
OVD	Officially Valid Document
PEPs	Politically Exposed Persons
PMLA	Prevention of Money Laundering Act 2002
PMLR	Prevention of Money-laundering (Maintenance of Records) Rules 2005
RBA	Risk-Based Approach
RE	Reporting Entities
STR	Suspicious Transaction Reporting
UAPA	Unlawful Activities (Prevention) Act, 1967
UNSC	United Nations Security Council



Introduction

1. Background

1.1 The present document shall be referred to as the AML & CFT Guidelines (hereinafter called “The Guidelines”) in respect of Multi-State Co-Operative Societies registered under Multi-State Co-Operative Societies Act, 2002, notified as ‘persons carrying on designated business or profession’ by the Central Government, vide notification F.No. P-12011/1/2013-E.S. Cell-DOR, dated May 04, 2018 (hereinafter referred to as **‘the notification’**).

1.2 The present document aims to provide a summary of legal provisions of anti-money laundering, counter-terrorism financing and proliferation financing legislations in India, viz. the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the “PMLA”), the Unlawful Activities (Prevention) Act, 1967 (hereinafter referred to as the “UAPA”), the Weapons of Mass Destruction and Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (hereinafter referred to as the “WMDA”) and rules/notifications thereunder and to lay down steps that Multi-State Co-Operative Societies shall implement to detect and report money laundering, terrorist financing or proliferation financing activities.

1.3 PMLA lays down record-keeping and reporting obligations for reporting entities - financial institutions and persons carrying on designated business or profession - with the latter defined in sub-clause (vi) of clause (sa) of sub-section (1) of section 2, which states that ‘person carrying on designated business or profession’, includes persons carrying on such other activities as the Central Government may, by notification, so designate from time-to-time. In exercise of said powers, the Central Government, vide notification F.No. P-12011/1/2013-E.S. Cell-DOR, dated May 04, 2018, notified Multi-State Co-Operative Societies registered under Multi-State Co-Operative Societies Act, 2002.

1.4 By virtue of the notification, Multi-State Co-Operative Societies registered under Multi-State Co-Operative Societies Act, 2002, become ‘Reporting Entities’, as defined under Section 2(1)(sa)(vi) of the Prevention of Money Laundering Act, 2002 (as amended) [PMLA] and are statutorily mandated to be registered as such with the Financial Intelligence Unit – India [FIU-IND].



2. Scope

The guidelines apply to Multi-State Co-Operative Societies registered under Multi-State Co-Operative Societies Act, 2002 (hereinafter referred to as '**the MSCSs**').

3. Effective Date

These guidelines shall take effect immediately i.e. from October 11, 2024.

4. General Obligations of Multi-State Co-Operative Societies.

4.1. Reportable Transactions

Rule 7(3) of the PMLR casts an obligation on every reporting entity to evolve an internal mechanism to detect transactions as specified under Rule 3(1) and furnishing information about such transactions to FIU-IND.

4.2. Internal Policies and Procedures to Combat Money Laundering, Counter Terrorist Financing and Combat Proliferation Financing

4.2.1 To comply with the obligations imposed on Multi-State Co-Operative Societies, notified as 'persons carrying on designated business or profession' under 'the notification', under PMLA and PMLR, every MSCS shall put in place a robust AML/CFT/CPF policy, in accordance with the points below.

4.2.2 The MSCSs shall adopt and periodically review board-approved policies which identify the ML, TF and PF risks associate with them and put in place procedures for dealing with said risks, reflecting the current statutory and regulatory requirements and guidance/guidelines issued by competent authorities and the regulator.

4.2.3 The MSCSs shall adopt and periodically review board-approved policies and procedures on the identification, prevention and mitigation of ML, TF, and PF to ensure their alignment with extant statutory provisions, rules and guidelines and guidance issued by competent authorities and the regulator.

4.2.4 The MSCSs shall adopt and periodically review board-approved client acceptance and KYC policies and undertake Client Due Diligence (CDD) measures in accordance with extant statutory provisions, rules and guidelines and guidance issued by competent authorities and the regulator;

4.3. Registration of Reporting Entities, Appointment of Designated Director and Principal Officer

4.3.1 Registration with FIU-IND



The MSCSs shall register as reporting entities with FIU-IND on FINNET (<https://finnet.gov.in>).

4.3.2 Appointment of Designated Director and Principal Officer

The MSCSs shall appoint a Designated Director and Principal Officer from among their working employees, in accordance with Rules 2(1)(ba) and 2(1)(f) of PMLR and communicate their name, designation and address to FIU-IND, in accordance with Rule 7(1) of PMLR.

4.3.3 Roles and Responsibilities of Designated Director and the Principal Officer

- The Designated Director and the Principal Officer shall be responsible for the following obligations to combat money laundering/ counter financing of terrorism/ combat proliferation financing:
- Furnishing of the information under Rule 8 (1) of the PMLR, as prescribed under sub Rule 3(1) (except Rule 3(1)(D)), of said rules every month, by 15th day of the succeeding month, in prescribed format to the Director, FIU-IND on FINNET system.
- Furnishing information in respect of suspicious transactions, as described under Rule 3(1)(D), without delay, on being satisfied that the transaction is suspicious as per Rule 8(2) of the PMLR. Such information shall include any attempted transactions, whether or not made in cash;
- Furnishing of information in respect of para 3 of WMD Order dated September 30, 2023 (F. No. P-12011/14/2022-ES Cell-DOR).
- Evolving an internal mechanism with regard to any directions/ guidelines issued by competent authorities and for furnishing information as prescribed under sub rule (1) of Rule 3 of the PMLR;
- Communication of firm wide policies, where applicable, relating to prevention of ML,TF and PF to all management and relevant staff that handle account information, money and client records, etc. within their organisation;
- Implementation of other internal policies as drawn up under clause 7 of the present document and, including:
 - a. Maintenance of records;
 - b. Compliance with relevant statutory and regulatory requirements;
 - c. Cooperation with the relevant law enforcement authorities, including the timely disclosure of information;



- Ensuring the robustness of periodic review of compliance function to ensure compliance with the policies, procedures and controls relating to the prevention of ML, TF and PF, including detection of suspected money laundering transactions.

4.4. Training

MSCSs shall institute appropriate processes for selection and training of employees (compliance and others), including the following,

- MSCSs should have adequate screening procedures when hiring employees.
- Instruction manuals on the procedures for KYC, CDD, sanctions screening, record-keeping and transaction monitoring and review should be included in training material.

4.5. Periodic Review

Periodic review of policies, procedures and controls shall be undertaken to ascertain their alignment with extant statutory and regulatory requirements.

4.6. Know Your Customer (KYC) Norms

All MSCSs shall have a robust mechanism in place for complying with KYC requirements prior to onboarding of clients as well as for carrying out re-KYC and continued due diligence (CDD) of existing customers in accordance with guidelines issued by the regulator in this regard.

4.7. Client due Diligence (CDD) Norms

MSCSs shall maintain accurate and up-to-date customer information. Rule 9 of PMLR provides for 'Client Due Diligence' and in accordance with said rule each MSCS, shall adopt written procedures to implement to

- identify its clients, verify their identity using reliable and independent sources of identification, obtain information on the purpose and intended nature of the business relationship, where applicable;
- take reasonable steps to understand the nature of the customer's business, and its ownership and control
- determine whether a client is acting on behalf of a beneficial owner, and identify the beneficial owner and take all steps to verify the identity of the beneficial owner, using reliable and independent sources of identification



4.8. **Enhanced Due Diligence (EDD) Norms**

4.8.1 MSCSs should examine, the background and purpose of all complex, unusually large transactions, and all unusual patterns of transactions carried out on behalf of their clients, which have no apparent economic rationale or lawful purpose. Where the risks of money laundering, terrorist financing or proliferation financing are higher, they must conduct enhanced due diligence, consistent with the risks identified. In particular, they should increase the degree and nature of monitoring of the business relationship, in order to determine whether those transactions or activities appear unusual or suspicious.

4.8.2 Conducting enhanced due diligence should not be limited to merely documenting income proofs. It includes measures and procedures which are more rigorous and robust than normal KYC. These measures should be commensurate with the risk. While not intended to be exhaustive, the following are some of the reasonable measures in carrying out enhanced due diligence:

- More frequent review of the customers' profile/transactions
- Application of additional measures like gathering information from publicly available sources or otherwise
- Reasonable measures to know that the source of funds is commensurate with the assessed risk of customer and product profile which may include:
 - Conducting independent enquiries on the details collected on /provided by the customer where required,
 - Consulting a credible database, public or otherwise, etc.,

4.9. **EDD with respect to high-risk jurisdictions/ persons/ entities**

Due to the potential for increased anonymity or obfuscation of financial flows and the challenges associated with conducting CDD, including customer identification and verification, the indicative list (inter alia) of activities regarded as posing high ML/TF/PF risks that may potentially require the application of monitoring and EDD measures, where appropriate, is as below,

- a. Application of EDD measures to business relationships and transactions with natural and legal persons from higher risk jurisdictions specifically with countries designated as tax-havens and those on the FATF grey and black lists.



- b. Implementation of EDD procedures when entering into business relationships with Politically Exposed Persons (“PEPs”). For the purposes of these guidelines ‘PEP’ shall have the same meaning assigned to it as per rule 2(1) (db) of PMLR.
- c. In cases where the MSCSs, are not able to undertake the required EDD, they must file a suspicious transaction report (STR).

4.10. **Sanctions screening for notified activities**

4.10.1 For the purpose of enhanced monitoring, sanctions screening should be carried out both at the time of on boarding, as well as at the time of amendments to designated lists.

4.10.2 MSCSs must ensure prompt application of the directives when issued by the competent authorities for implementing United Nations Security Council Resolutions, as well as national sanctions, relating to the suppression and combating of terrorism, terrorist financing and proliferation of weapons of mass destruction and its financing, and other related directives, as well as compliance with all other applicable laws, regulatory requirements and guidelines in relation to economic sanctions. Prompt application of the directives when issued by the competent authorities relating to the individuals designated as ‘terrorist’ under Section 35(1)(a) of the UAPA, 1967 and directives when issued by the competent authorities under WMDA, shall be ensured.

4.10.3 Counterparty Screening – MSCSs, when acting on behalf of their clients shall ascertain any emergent risk stemming from suspicious transaction history or other information such as adverse media, published information about regulatory or criminal penalties in respect of their client’s counterparty/ies.

5. Reporting Obligations of MSCSs

5.1 The PMLA, PMLR cast obligations pertaining to filing of reports on certain reportable transactions to Financial Intelligence Unit-India (FIU-IND) set up by the Government of India to coordinate and strengthen collection and sharing of financial intelligence through effective national, regional, and global network to combat money laundering and related crimes. FIU-IND is the central nodal agency responsible for receiving, processing, analysing, and disseminating information relating to reportable transactions.

5.2 All MSCs as notified under ‘the notification’, are required to, where they have reasonable grounds to suspect that funds are the proceeds of crime or are related to ML, TF and PF, report their suspicions promptly to FIU-IND in the form of suspicious



transaction reports, as well as other reportable transactions in pursuance of PMLA and PMLR, as per the mechanism prescribed in clause 5.1.1 hereunder.

5.3 In order to combat the menace of money-laundering, terror financing and other related serious crimes, Rule 7(3) of the PMLR casts an obligation on every reporting entity to evolve an internal mechanism to detect transactions as specified under Rule 3(1) of the PMLR and furnishing information about such transactions to the Director, Financial Intelligence Unit-India (FIU-IND).

5.4 Mechanism for reporting to FIU-India:

MSCSs are required to file prescribed reports with FIU-India by registering on FINNET system.

5.5 Format for reporting Transactions

The format for reporting transactions, including suspicious transactions made or attempted, as required under Rule 7(2) of PMLR, has been standardised by FIU-IND and guidance/training regarding the same can be availed during the process of registration on FINNET.

5.6 Suspicious Transactions Report (STR):

Rule 8(2) read with Rule 3(1)(D) of the PMLR provides for timely reporting of a suspicious transaction, which also includes reporting of attempted suspicious transactions, to the Financial Intelligence Unit (FIU-IND), if a reporting entity suspects or has reasonable grounds to suspect that funds used by a client are the proceeds of a criminal activity, or are related to terrorist financing. As detailed in Rule 3(1) of PMLR, suspicious transactions shall be reported without delay from the date of forming of suspicion on such transaction.

5.6.1 Special attention should be paid to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. Background of such transactions, including all documents/office records/memorandums pertaining to such transactions, as far as possible, should be examined by the Principal Officer for recording their findings.

6. Prohibition on Tipping-off

Reporting entities and their directors, officers, and employees (permanent and temporary) are prohibited from disclosing (“tipping off”) that an STR or any information is furnished to FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/ or any information but even before, during and after the submission of an



STR or any such information to FIU-IND. Thus, it shall be ensured that there is no tipping off to the client at any level as provided for under Section 12(2) of PMLA.

7. Maintenance of Records

MSCSs are required to retain records as defined in Sections 12(1)(a) and 12(1)(e) of PMLA and for a period of five years after the business relationship between a client and the reporting entity has ended or the engagement has been closed, whichever is later, as mentioned in Section 12(3) and 12(4) of PMLA.

8. Risk Assessment

MSCSs shall carry out risk assessment to identify, assess and take effective measures to mitigate money laundering and terrorist financing risk, severally and together, for customers, countries or geographic areas, and services, transactions or delivery channels that is consistent with the national risk assessment duly notified by the Central Government. Further, a risk based approach (RBA) must be adopted to facilitate priority allocation of resources for appropriate control and oversight of AML/CFT/CPF safeguards. MSCSs shall ensure that:

- Appropriate steps are adopted to ensure that any identified risks are managed and mitigated through the establishment of appropriate and effective policies, procedures, and controls.
- The risk assessment shall be documented and be kept up-to-date. The MSCSs shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied to their clients. It shall be made available to competent authorities and the regulator, as and when required.
- Risk Assessments should be subject to regular review and updation to ensure an effective system for remedying any identified deficiencies.

