

Summary of Order in Original No. 27/DIR/FIU-IND/2022 in the matter of Mysore Silk Cloth Merchants' Cooperative Bank ("MSCM Bank" or "the Bank"),

In the present matter, FIU-IND received a reference from the Reserve Bank of India (RBI) in respect of certain observations made pursuant to inspection of MSCM Bank by RBI. Specifically, observations were shared concerning the Bank's practices / systems relating to (i) (non) submission of cash transaction reports and suspicious transaction reports, (ii) cash payment for demand drafts, (iii) KYC relating to issuance of demand draft, and (iv) certain transactions relating to issuance of demand drafts to the same payee.

Based on an examination of the reference from RBI, the Bank was provided an opportunity to share its comments on the observations of RBI. In response, the Bank provided various submissions. However, after scrutiny of the same, further information was called for by FIU-IND in exercise of powers under Section 12A, PMLA. Further correspondence was required as the Bank only provided partial responses.

Based on an examination of the material on record and submissions of the Bank, it was determined that potential non-compliances of the obligations under Chapter IV of PMLA may have taken place. In order to examine the matter further, it was required that the observations be put to the Bank. Therefore, show cause notice dated October 26, 2020 was issued to the Bank in connection with (i) the potential failure of Bank to report certain number of CTRs; (ii) the potential failure of Bank to carry out proper KYC and due diligence of certain clients; and (iii) the potential failure of Bank to evolve an effective internal mechanism to detect and report suspicious transactions.

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. The personal hearing was followed by additional written submissions of the Bank.

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 3, 2022 in exercise of his powers under Section 13, PMLA, it was found to be appropriate to:

- (i) In respect of charges relating to non-filing of CTRs, levy a monetary penalty of Rs. 1,35,000/- (Rupees One Lakh Thirty Five Thousand Only) in respect of the Bank's non-compliance with Section 12(1)(a) and (b) of the Act read with Rule 3(1)(A) and Rule 8.
- (ii) In respect of charges relating to the Bank's internal mechanism to detect and report suspicious transactions, 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)(a) and (b) of PMLA read with Rule 3(1)(D), 5(2) and 7(3) of PML Rules.
- (iii) 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.