

NATIONAL STOCK EXCHANGE OF INDIA LIMITED  
INVESTIGATION DEPARTMENT  
CIRCULAR

Circular No. NSE/INVG/2008/223

Download No. NSE/INVG/2008/11798

December 22, 2008

Dear Members,

Sub: Master Circular on Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under

SEBI vide its circular ref.no.ISD/AML/CIR-1/2008 dated December 19, 2008 has issued a Master Circular on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) – Obligations of Intermediaries under Prevention of Money Laundering Act, 2002 and Rules Framed there under.

Copy of the circular and annexures are enclosed.

Members are advised to take note of the above and ensure compliance with the same.

For and on behalf of National Stock Exchange of India Ltd

Nisha Subhash  
Asst. Vice President  
Investigation

(Encl:as above)

OFFICER ON SPECIAL DUTY  
INTEGRATED SURVEILLANCE DEPARTMENT  
EMAIL – ramanns@sebi.gov.in  
TEL : 022 26449450  
Fax : 022 26449029  
ISD/AML/CIR-1/2008  
December 19, 2008

To all Intermediaries registered with SEBI under section 12 of the SEBI Act.  
(Through the stock exchanges for stock brokers, sub brokers and depositories  
for depository participants)

Sub: Anti Money Laundering (AML) Standards/Combating Financing of Terrorism  
(CFT)/Obligations of Securities Market Intermediaries under Prevention of Money  
Laundering Act, 2002 and Rules framed there-under- Master Circular on AML/CFT

Dear Sir / Madam,

1. The Prevention of Money Laundering Act, 2002 (PMLA) was brought into force with effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on July 01, 2005. Subsequently, SEBI issued necessary guidelines vide circular no. ISD/CIR/RR/AML/1/06 dated January 18, 2006 to all securities market intermediaries as registered under Section 12 of the SEBI Act, 1992. These guidelines were issued in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards. Compliance with these standards by all intermediaries and the country has become imperative for international financial relations.

2. As per the provisions of the Prevention of Money Laundering Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. Such transactions include :

All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.

All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.

All suspicious transactions whether or not made in cash.

3. The Guidelines laid down the minimum requirements and it was emphasised that the intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of Money Laundering and suspicious transactions undertaken by clients. All intermediaries were also advised to ensure that a proper policy framework as per the Guidelines on anti-money laundering measures is put into place and to designate an officer as 'Principal Officer' who would be responsible for ensuring compliance of the provisions of the PMLA. Names, designation and addresses (including e-mail addresses) of 'Principal Officer' shall also be intimated to the Office of the

Director-FIU, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi -110021, India on an immediate basis.

4. The detailed procedure incorporating the manner of maintaining information and matters incidental thereto for SEBI registered intermediaries, under the prevention of Money Laundering Act, 2002 and the Rules made there-under and formats for reporting by the intermediaries were also issued subsequently vide circular reference no. ISD/CIR/RR/AML/2/06 dated March 20, 2006.

5. This Master circular consolidates all the requirements/obligations issued with regard to AML/CFT till December 15, 2008. This Circular is being issued to all the intermediaries as specified at para 2 above. The circular shall also apply to their branches and subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws and regulations permit. When local applicable laws and regulations prohibit implementation of these requirements, the same should be brought to the notice of SEBI. In case there is a variance in KYC/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements of the two.

6. This Master circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, and Rule 7 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

7. All the registered intermediaries are directed to ensure compliance with the requirements contained in this Master Circular on an immediate basis. Stock exchanges and depositories are also directed to bring the contents of this circular to the attention of their member brokers/ depository participants and verify compliance during inspections.

Yours faithfully,

S. Ramann

SEBI Master Circular on Anti Money Laundering (AML and Combating Financing of Terrorism (CFT)- Obligations of Intermediaries under Prevention of Money Laundering Act, 2002 and Rules Framed there-under

(Consolidated upto December 15, 2008)

## PART -I OVER VIEW

- 1 Introduction
- 2 Background
- 3 Policies and Procedures to Combat Money Laundering and Terrorist financing
  - 3.1 Guiding Principles
  - 3.2 Obligations to establish policies and procedures

## PART -II DETAILED OBLIGATIONS

- 4 Written Anti Money Laundering Procedures
- 5 Customer Due Diligence
  - 5.1 Elements of Customer Due Diligence
  - 5.2 Policy for acceptance of clients
  - 5.3 Risk Based Approach
  - 5.4 Clients of special category (CSC)
  - 5.5 Client identification procedure
- 6 Record Keeping
- 7 Information to be maintained
- 8 Retention of Records
- 9 Monitoring of transactions
- 10 Suspicious Transaction Monitoring & Reporting
- 11 Reports to Financial Intelligence Unit- India
- 12 Designation of an officer for reporting of suspicious transaction
- 13 Employees' Hiring/Training and Investor Education
- 14 List of Key Circulars/Guidelines issued having a bearing on AML/CFT framework
- 15 Annexure- List of various Reports and their formats

### 1. Introduction

1.1 The Guidelines as outlined below provide a general background on the subjects of money laundering and terrorist financing summarizes the main provisions of the applicable anti-money laundering and anti-terrorist financing legislation in India and provides guidance on the practical implications of the Act. The Guidelines also sets out the steps that a registered intermediary or any of its representatives, should implement to discourage and identify any money laundering or terrorist financing activities. The relevance and usefulness of these Guidelines will be kept under review and it may be necessary to issue amendments from time to time.

1.2 These Guidelines are intended for use primarily by intermediaries registered under Section 12 of the SEBI Act, 1992. While it is recognized that a “one-size-fits-all” approach may not be appropriate for the securities industry in India, each registered intermediary should consider the specific nature of its business, organizational structure, type of customers and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they should be able to satisfy themselves that the measures taken by them are adequate,

appropriate and follow the spirit of these measures and the requirements as enshrined in the Prevention of Money Laundering Act, 2002. (PMLA)

## 2. Back Ground:

2.1 The Prevention of Money Laundering Act, 2002 came into effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, Government of India.

2.2 As per the provisions of the Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include:

All cash transactions of the value of more than Rs 10 lacs or its equivalent in foreign currency.

All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.

All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as d-mat account, security account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

## 3. Policies and Procedures to Combat Money Laundering and Terrorist financing

### 3.1 Guiding Principles

3.1.1 These Guidelines have taken into account the requirements of the Prevention of the Money Laundering Act, 2002 as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed guidelines in Part II have outlined relevant measures and procedures to guide the registered intermediaries in preventing money laundering and terrorist financing. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary should consider carefully the specific nature of its business, organizational structure, type of customer and transaction, etc. to satisfy itself that the measures taken by them are adequate and

appropriate to follow the spirit of the suggested measures in Part II and the requirements as laid down in the Prevention of Money Laundering Act, 2002.

### 3.2 Obligation to establish policies and procedures

3.2.1 International initiatives taken to combat drug trafficking, terrorism and other organized and serious crimes have concluded that financial institutions including securities market intermediaries must establish procedures of internal control aimed at preventing and impeding money laundering and terrorist financing. The said obligation on intermediaries has also been obligated under the Prevention of Money Laundering Act, 2002. In order to fulfill these requirements, there is also a need for registered intermediaries to have a system in place for identifying, monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities.

3.2.2 In light of the above, senior management of a registered intermediary should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries should:

- (a) Issue a statement of policies and procedures, on a group basis where applicable, for dealing with money laundering and terrorist financing reflecting the current statutory and regulatory requirements;
- (b) Ensure that the content of these Guidelines are understood by all staff members;
- (c) Regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. Further in order to ensure effectiveness of policies and procedures, the person doing such a review should be different from the one who has framed such policies and procedures;
- (d) Adopt customer acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing;
- (e) undertake customer due diligence (“CDD”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transaction; and
- (f) Develop staff members’ awareness and vigilance to guard against money laundering and terrorist financing.

#### 3.2.3 Policies and procedures to combat Money Laundering should cover:

- a. Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account information, securities transactions, money and customer records etc. whether in branches, departments or subsidiaries;

- b. Customer acceptance policy and customer due diligence measures, including requirements for proper identification;
- c. Maintenance of records;
- d. Compliance with relevant statutory and regulatory requirements;
- e. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- f. Role of internal audit or compliance function to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist financing, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff of their responsibilities in this regard.

## PART II DETAILED GUIDELINES

### 4. Written Anti Money Laundering Procedures

4.1 Each registered intermediary should adopt written procedures to implement the anti money laundering provisions as envisaged under the Anti Money Laundering Act, 2002. Such procedures should include inter alia, the following three specific parameters which are related to the overall 'Client Due Diligence Process':

- a. Policy for acceptance of clients
- b. Procedure for identifying the clients
- c. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)

### 5. Customer Due Diligence

5.1 The customer due diligence ("CDD") measures comprise the following:

(a) Obtaining sufficient information in order to identify persons who beneficially own or control securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

(b) Verify the customer's identity using reliable, independent source documents, data or information;

(c) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted;

(d) Verify the identity of the beneficial owner of the customer and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c); and

(e) Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer's source of funds.

## 5.2 Policy for acceptance of clients:

5.2.1 All registered intermediaries should develop customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, they will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters should enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.
- c) Documentation requirement and other information to be collected in respect of different classes of clients depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.
- d) Ensure that an account is not opened where the intermediary is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the intermediary is suspected to be non genuine, perceived non co-operation of the client in providing full and complete information. The market intermediary should not continue to do business with such a person and file a suspicious activity report. It should also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The market intermediary should be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the market intermediary should consult the relevant authorities in determining what action it should take when it suspects suspicious trading.

e) The circumstances under which the client is permitted to act on behalf of another person / entity should be clearly laid down. It should be specified in what manner the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. Further the rights and responsibilities of both the persons (i.e the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting should be clearly laid down). Adequate verification of a person's authority to act on behalf the customer should also be carried out.

f) Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

### 5.3 Risk-based Approach

5.3.1 It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. As such, the registered intermediaries should apply each of the customers due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries should adopt an enhanced customer due diligence process for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries should obtain necessarily depend on the risk category of a particular customer.

### 5.4 Clients of special category (CSC):

Such clients include the following-

- a. Non resident clients
- b. High networth clients,
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. Politically exposed persons (PEP) of foreign origin
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international

terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.

i. Non face to face clients

j. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and the intermediary should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

#### 5.5 Client identification procedure:

The 'Know your Client' (KYC) policy should clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data.

The KYC /client identification procedures have been specified and strengthened by SEBI from time to time. For example, SEBI vide its circular no. SMD-1/23341 dated November 18, 2003 laid down the mandatory requirement to obtain details of clients by brokers and formats of clients registration form and broker client agreements were specified vide circular no. SMD/POLICY/CIRCULARS/5-97 dated April 11, 1997. Subsequently in order to bring about uniformity in documentary requirements across different segments and exchanges as also to avoid duplication and multiplicity of documents, uniform documentary requirements for trading across different segments and exchanges have been specified vide SEBI circular no/ SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004. Similarly KYC circulars with regard to depositories have been issued vide circulars no. SMDRP/Policy/Cir-36/2000 dated August 04, 2000, circular no. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 and circular no. MRD/DoP/Dep/Cir-12/2007 dated September 7, 2007. Similarly prohibition on acceptance of cash from clients has been specified vide SEBI circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003.

In order to further strengthen the KYC norms and identify every participant in the securities market with their respective PAN thereby ensuring sound audit trail of all the transactions, PAN has been made sole identification number for all participants transacting in the securities market, irrespective of the amount of transaction vide SEBI Circular reference MRD/DoP/Cir-05/2007 dated April 27, 2007, subject to certain exemptions granted under circular reference MRD/DoP/MF/Cir-08/208 dated April 03, 2008 and MRD/DoP/Cir-20/2008 dated June 30, 2008.

All registered intermediaries should put in place necessary procedures to determine whether their existing/potential customer is a politically exposed person (PEP). Such procedures would include seeking additional information from clients, accessing publicly available information etc.

All registered intermediaries are required to obtain senior management approval for establishing business relationships with Politically Exposed Persons. Where a customer has been accepted and the customer or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.

Registered intermediaries shall take reasonable measures to verify source of funds of clients identified as PEP.

The client should be identified by the intermediary by using reliable sources including documents / information. The intermediary should obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines. Each original documents should be seen prior to acceptance of a copy.

Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority within the intermediary.

SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time as stated earlier in this para. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, all registered intermediaries should frame their own internal guidelines based on their experience in dealing with their clients and legal requirements as per the established practices. Further, the intermediary should also maintain continuous familiarity and follow-up where it notices inconsistencies in the information provided. The underlying objective should be to follow the requirements enshrined in the PML Act, 2002 SEBI Act, 1992 and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

Every intermediary shall formulate and implement a client identification programme which shall incorporate the requirements of the Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. A copy of the client identification programme shall be forwarded to the Director, FIU- IND.

It may be noted that while risk based approach may be adopted at the time of establishing business relationship with a client, no exemption from obtaining the

minimum information/documents from clients as provided in the PMLA Rules is available to brokers in respect of any class of investors with regard to the verification of the records of the identity of clients.

## 6. Record Keeping

6.1 Registered intermediaries should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

6.2 Registered Intermediaries should maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

6.3 Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, registered intermediaries should retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail:

- (a) the beneficial owner of the account;
- (b) the volume of the funds flowing through the account; and
- (c) for selected transactions:
  - the origin of the funds;
  - the form in which the funds were offered or withdrawn, e.g. cash, cheques, etc.;
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instruction and authority.

6.4 Registered Intermediaries should ensure that all customer and transaction records and information are available on a timely basis to the competent investigating authorities. Where appropriate, they should consider retaining certain records, e.g. customer identification, account files, and business correspondence, for periods which may exceed that required under the SEBI Act, Rules and Regulations framed there-under PMLA 2002, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

6.5 More specifically, all the intermediaries shall put in place a system of maintaining proper record of transactions prescribed under Rule 3, notified under the Prevention of Money Laundering Act (PMLA), 2002 as mentioned below:

- (i) all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- (ii) all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of

transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;

(iii) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;

(iv) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

## 7. Information to be maintained

Intermediaries are required to maintain and preserve the following information in respect of transactions referred to in Rule 3 of PMLA Rules:

I. the nature of the transactions;

II. the amount of the transaction and the currency in which it denominated;

III. the date on which the transaction was conducted; and

IV. the parties to the transaction.

## 8. Retention of Records

8.1 Intermediaries should take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PMLA Rules have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and intermediary.

8.2 As stated in para 5.5, intermediaries are required to formulate and implement the client identification program containing the requirements as laid down in Rule 9 and such other additional requirements that it considers appropriate. The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and intermediary.

8.3 Thus the following document retention terms should be observed:

(a) All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period prescribed under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.

(b) Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the same period.

8.4 In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

## 9. Monitoring of transactions

9.1 Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that they can identify the deviant transactions / activities.

9.2 Intermediary should pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The intermediary may specify internal threshold limits for each class of client accounts and pay special attention to the transaction which exceeds these limits.

9.3 The intermediary should ensure a record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.

9.4 Further the compliance cell of the intermediary should randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

## 10. Suspicious Transaction Monitoring & Reporting

10.1 Intermediaries should ensure to take appropriate steps to enable suspicious transactions to be recognised and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, intermediaries should be guided by definition of suspicious transaction contained in PML Rules as amended from time to time.

10.2 A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- a) Clients whose identity verification seems difficult or clients appears not to cooperate
- b) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- c) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- d) Substantial increases in business without apparent cause;
- e) Unusually large cash deposits made by an individual or business;
- f) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- g) Transfer of investment proceeds to apparently unrelated third parties;

h) Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items.

10.3 Any suspicion transaction should be immediately notified to the Money Laundering Control Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

10.4 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 intermediaries should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

## 11. Reporting to Financial Intelligence Unit-India

11.1 In terms of the PMLA rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit-India,  
6th Floor, Hotel Samrat,  
Chanakyapuri,  
New Delhi-110021.  
Website: <http://fiuindia.gov.in>

11.2 Intermediaries should carefully go through all the reporting requirements and formats enclosed with this circular. These requirements and formats are divided into two parts- Manual Formats and Electronic Formats. Details of these formats are given in the documents (Cash Transaction Report- version 1.0 and Suspicious Transactions Report version 1.0) which are also enclosed with this circular. These documents contain detailed guidelines on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. The related hardware and technical requirement for preparing reports in manual/electronic format, the related data files and data structures thereof are also detailed in these documents. Intermediaries, which are not in a position to immediately file electronic reports, may file manual reports to FIU-IND as per the formats prescribed. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, intermediaries should adhere to the following:

(a) The cash transaction report (CTR) (wherever applicable) for each month should be submitted to FIU-IND by 15th of the succeeding month.

(b) The Suspicious Transaction Report (STR) should be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion.

(c) The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;

(d) Utmost confidentiality should be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.

(e) No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.

11.3 Intermediaries should not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) should be prohibited from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU-IND. Thus, it should be ensured that there is no tipping off to the client at any level.

## 12. Designation of an officer for reporting of suspicious transactions

12.1 To ensure that the registered intermediaries properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions. Names, designation and addresses (including e-mail addresses) of ‘Principal Officer’ including any changes therein shall also be intimated to the Office of the Director-FIU. As a matter of principle, it is advisable that the ‘Principal Officer’ is of a sufficiently higher position and is able to discharge his functions with independence and authority.

## 13. Employees’ Hiring/Employee’s Training/ Investor Education

### 13.1 Hiring of Employees

The registered intermediaries should have adequate screening procedures in place to ensure high standards when hiring employees. They should identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

### 13.2 Employees’ Training

Intermediaries must have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements should have specific focuses for frontline staff, back office staff, compliance staff, risk

management staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind these guidelines, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

### 13.3 Investors Education

Implementation of AML/CFT measures requires intermediaries to demand certain information from investors which may be of personal nature or which has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the customer with regard to the motive and purpose of collecting such information. There is, therefore, a need for intermediaries to sensitize their customers about these requirements as the ones emanating from AML and CFT framework. Intermediaries should prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the AML/CFT programme.

### 14. List of key circulars issued with regard to KYC/AML/CFT

Circular No. Date of circular Subject Broad area covered

1. MRD/DoP/Cir-05/2007 April 27, 2007 PAN to be the sole identification number for all transactions in the securities market In order to strengthen KYC and identify every participant in the securities market with their respective PAN, so as to ensure sound audit trail, PAN made mandatory for participants transacting in the securities market.

2. ISD/CIR/RR/AML/2/06

March 20, 2006 Prevention of Money Laundering Act, 2002- Obligations of intermediaries in terms of Rules notified there under Procedure for maintaining and preserving records, reporting requirements and formats of reporting cash transactions and suspicious transactions

3. ISD/CIR/RR/AML/1/06

January 18, 2006 Guidelines on Anti Money Laundering Standards Framework for AML and CFT including policies and procedures, Customer Due Diligence requirements, record keeping, retention, monitoring and reporting

4. SEBI/MIRSD/DPS-1/Cir-31/2004 August 26, 2004 Uniform Documentary Requirements for trading Uniform KYC documentary requirements for trading on different segments and exchanges

5. MRD/DoP/Dep/Cir-29/2004

August 24, 2004

Proof of Identity (POI) and Proof of Address (POA) for opening a Beneficiary Owner (BO) Account for non-body corporate broadening the list of documents that may be accepted as Proof of Identity (POI) and/or Proof of Address (POA) for the purpose of opening a BO Account

6. SEBI/MRD/SE/Cir-33/2003/27/08 August 27, 2003 Mode of payment and delivery Prohibition on acceptance/giving of cash by brokers and on third party transfer of securities
7. SMD/POLICY/CIRCULARS/5-97 April 11, 1997 Client Registration Form Formats of client Registration Form and broker clients agreements
8. SMD-1/23341

Nov. 18, 1993

Regulation of transaction between clients and members  
Mandatory requirement to obtain details of clients by brokers.

15. Annexure:

List of various reports and their formats

1. Cash Transaction Report Version 1.0 (Guidance Note) including
2. Summary of cash transaction report for an intermediary
3. Cash Transaction Report for an Intermediary
4. Annexure A- Individual data sheet for an intermediary
5. Annexure B- Legal person/Entity detail sheet for an intermediary
6. Suspicious Transaction Report Version 1.0 (Guidance Note) including
7. Suspicious Transaction Report for an intermediary
8. Annexure A- Individual Detail Sheet for an intermediary
9. Annexure B- Legal Person/ Entity Detail Sheet for an intermediary
10. Annexure C- Account Detail Sheet for an intermediary