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ISD/AML/CIR-1/2010

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**To all Intermediaries registered with SEBI under Section 12 of the SEBI Act.**

**(Through the stock exchanges for stock brokers, sub brokers, depositories for depository participants, AMFI for Asset Management Companies.)**

**Sub: Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under the 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 1<sup>st</sup> July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on July 01, 2005.

- As per the provisions of the PMLA , every banking company, financial institution (includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and

intermediary (includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**) shall have to adhere to client account opening procedures and maintain records of such transactions as prescribed by the PMLA and Rules notified there under

2. SEBI has issued necessary directives vide circulars from time to time, covering issues related to Know Your Client (**KYC**) norms, Anti-Money Laundering (**AML**), Client Due Diligence (**CDD**) and Combating Financing of Terrorism (**CFT**). The directives lay down the minimum requirements and it is 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. Reference to applicable statutes and reporting guidelines for intermediaries is available at the website of the Financial Intelligence Unit – India (**FIU-IND**). Directives to all intermediaries under Section 12 of the SEBI Act are also issued in the context of compliance with the standards set by the Financial Action Task Force (**FATF**) on AML and CFT.

3. **List of key circulars/directives issued with regard to KYC, CDD, AML and CFT**

Following is a list of key circulars on KYC/CDD/AML/CFT issued by SEBI from 1993:

	Circular No.	Date of circular	Subject	Broad area covered
1	SEBI/MIRSD/Cir No.02/2010	January 18, 2010	Mandatory Requirement of in-person verification of clients.	In-person verification done for opening beneficial owner's account by a DP will hold good for opening trading account for a stock broker and vice versa, if the DP and the stock broker is the same entity or if one of them is the holding or subsidiary company of the other.
2	SEBI / IMD / MC No.1 /189241/ 2010	January 01, 2010	Master Circular for Mutual Funds	Compliance with AML/CFT CDD directives of SEBI stipulated in Master Circular dated December 19, 2008
3	ISD/AML/CIR-2/2009	October 23, 2009	Directives on CFT under Unlawful Activities (Prevention) Act, 1967	Procedure to be followed for the freezing of assets of individual or entities engaged in terrorism
4	ISD/AML/CIR-1/2009	September 01, 2009	Additional AML/ CFT obligations of Intermediaries under PMLA, 2002 and rules framed thereunder	Additional AML/CFT requirements and clarifications thereon
5	ISD/AML/CIR-1/2008	December 19, 2008	Master Circular on AML/CFT directives	Framework for AML/CFT including procedures for CDD, client identification, record keeping & retention, monitoring and reporting of STRs
6	MIRSD/DPS-	July 2,	In-Person verification of clients	Responsibility of stock-

	III/130466/2008	2008	by stock-brokers	brokers to ensure in-person verification by its own staff.
7	MRD/DoP/Cir-20/2008	June 30, 2008	Mandatory Requirement of PAN	Exception for certain classes of persons from PAN being the sole identification number for all participants trading in the securities market.
8	F.No.47/2006/ISD/S <u>R/122539</u>	April 4, 2008	In-person verification of BO's when opening demat accounts	In-person verification to be carried out by staff of depository participant.
9	MRD/DoP/Cir-20/2008	April 3, 2008	Exemption from Mandatory requirement of PAN.	Exemption for investors residing in the State of Sikkim from PAN being the sole identification number for trading in the securities market.
10	F.No.47-2006/ISD/SR/11815 3/2008	February 22, 2008	In-Person verification of clients by depositories	clarification on various topics relating to 'in-person' verification of BOs at the time of opening demat accounts
11	MRD/DoP/Dep/Cir-12/2007	September 7, 2007	KYC Norms for Depositories	Proof of Identity (POI) and Proof of Address (POA) for opening a Beneficiary Owner (BO) Account for non-body corporates.
12	MRD/DoP/Cir-05/2007	April 27, 2007	PAN to be the sole identification number for all transactions in the securities market	Mandatory requirement of PAN for participants transacting in the securities market.
13	ISD/CIR/RR/AML/2/	March 20,	PMLA- Obligations of intermediaries in	Procedure for maintaining

	06	2006	terms of Rules notified there under	and preserving records, reporting requirements and formats of reporting cash transactions and suspicious transactions
14	ISD/CIR/RR/AML/1/06	January 18, 2006	Directives on AML Standards	Framework for AML and CFT including policies and procedures, Client Due Diligence requirements, record keeping, retention, monitoring and reporting
15	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
16	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
17	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
18	SMDRP/Policy/Cir-36/2000	August 4, 2000	KYC Norms for Depositories	Documentary requirements for opening a beneficiary account.
19	SMD/POLICY/CIRCULARS/5-97	April 11, 1997	Client Registration Form	Formats of client Registration Form and broker clients agreements
20	SMD-1/23341	Nov. 18,	Regulation of	Mandatory requirement to

		1993	transaction between clients and members	obtain details of clients by brokers.
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4. This Master circular consolidates all the requirements/instructions issued by SEBI with regard to AML/CFT till January 31 2010 and supersedes the earlier circulars, dated September 01, 2009, December 19, 2008, March 20, 2006 and January 18, 2006 referenced at S.Nos. (4, 5,13 and 14) respectively of the abovementioned table. This Master Circular is divided into two parts; the first part is an overview on the background and essential principles that concern combating money laundering and terrorist financing. The second part provides a detailed account of the procedures and obligations to be followed by all registered intermediaries to ensure compliance with AML/CFT directives 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 CDD/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.
5. 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 (SEBI Act), and Rule 7 and Rule 9 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 (PML Rules) to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

6. All the registered intermediaries are directed to ensure compliance with the requirements contained in this Master Circular on an immediate basis. Stock exchanges, Depositories and AMFI are also directed to bring the contents of this circular to the attention of their members/ 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 the Prevention of Money Laundering Act,  
2002 and Rules Framed there-under**

(Consolidated upto January 31, 2010)


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## PART - I OVERVIEW

### 1. Introduction

- 1.1 The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (**PMLA**). The Directives also set out the steps that a registered intermediary or its representatives should implement to discourage and to identify any money laundering or terrorist financing activities. The relevance and usefulness of these Directives will be kept under review and it may be necessary to issue amendments from time to time.
- 1.2 These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**). 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 clients 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 abide by the spirit of such measures and the requirements as enshrined in the PMLA

### 2. Back Ground:

The PMLA came into effect from 1<sup>st</sup> July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1<sup>st</sup> July 2005 by the Department of Revenue, Ministry of Finance, Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**) will now be treated as a scheduled offence under schedule B of the PMLA.

As per the provisions of the PMLA, 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 SEBI Act , 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 lakh or its equivalent in foreign currency.
- ❑ All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakh 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 demat 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.

In case there is a variance in CDD/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.

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

#### **3.1 Essential Principles**

3.1.1 These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives 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 client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures in Part II and the requirements as laid down in the PMLA.

### 3.2 Obligation to establish policies and procedures

3.2.1 Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all intermediaries ensure the fulfillment of the aforementioned obligations.

3.2.2 To be in compliance with these obligations, 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 Directives are understood by all staff members;
- (c) regularly review the policies and procedures on the prevention of money laundering and terrorist financing to ensure their effectiveness. Further, in order to ensure the 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 client acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing;
- (e) undertake client due diligence (“**CDD**”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of client, business relationship or transaction;
- (f) have a system in place for identifying, monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities; and
- (g) 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 client records etc. whether in branches, departments or subsidiaries;
- b. Client acceptance policy and client 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 the policies, procedures, and controls relating to the 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 DIRECTIVES**

### **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 PMLA. 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. Client Due Diligence**

5.1 The CDD measures comprise the following:

- (a) Obtaining sufficient information in order to identify persons who beneficially own or control the 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 client'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 client and/or the person on whose behalf a transaction is being conducted;
- (d) Verify the identity of the beneficial owner of the client 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 client, its business and risk



profile, taking into account, where necessary, the client's source of funds.

## 5.2 Policy for acceptance of clients:

5.2.1 All registered intermediaries should develop client acceptance policies and procedures that aim to identify the types of clients 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 client due diligence on a risk sensitive basis depending on the type of client 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 Know Your Client (**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 requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.
  
- d) Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine, or there is 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 of the client 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 clients may be of a higher or lower risk category depending on circumstances such as the client's background, type of business relationship or transaction etc. As such, the registered intermediaries should apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries should adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. 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 client.

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

Such clients include the following-

- i. Non resident clients
- ii. High net-worth clients,
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- iv. Companies having close family shareholdings or beneficial ownership
- v. Politically Exposed Persons (**PEP**) Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.
- vi. Companies offering foreign exchange offerings
- vii. 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.

- viii. Non face to face clients
- ix. 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 any other set of clients should be classified as CSC or not.

## **5.5 Client identification procedure:**

- 5.5 The 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.

Intermediaries shall be in compliance with the following requirements while putting in place a Client Identification Procedure (**CIP**):

- a) All registered intermediaries should put in place necessary procedures to determine whether their existing/potential client is a PEP. Such procedures would include seeking additional information from clients, accessing publicly available information etc.
- b) All registered intermediaries are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client 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.

- c) Registered intermediaries shall take reasonable measures to verify source of funds of clients identified as PEP.
- d) 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.
- e) 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 directives. Each original document should be seen prior to acceptance of a copy.
- f) Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority within the intermediary.

5.5.1 SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time as detailed in the table. 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 directives based on their experience in dealing with their clients and legal requirements as per the established practices. Further, the intermediary should conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying

objective should be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

5.5.2 Every intermediary shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules 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. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and need to be adhered to by registered intermediaries.

5.5.3 It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediaries (brokers, depository participants, AMCs etc.) from obtaining the minimum information/documents from clients as stipulated in the PML Rules/SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This shall be strictly implemented

by all intermediaries and non-compliance shall attract appropriate sanctions.

## **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, PMLA 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 clients 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. cheques, demand drafts 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 client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they should retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, 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 of PML Rules 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 PML Rules:

- I. the nature of the transactions;
- II. the amount of the transaction and the currency in which it is 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 PML Rules have to be maintained and preserved for a period of ten years from the date of transactions between the client and intermediary.

8.2 As stated in sub-section 5.5, intermediaries are required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules 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 and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.

(b) Records on client 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 AML procedures. This is possible only if

the intermediary has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities.

- 9.2 The 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 transactions which exceeds these limits. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents should be made available to auditors and also to SEBI /stock exchanges/FIU-IND/other relevant Authorities, during audit, inspection or as and when required. These records are required to be preserved for ten years as is required under PMLA.
- 9.3 The intermediary should ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director,FIU-IND. Suspicious transactions should also be regularly reported to the higher authorities within the intermediary.
- 9.4 Further, the compliance cell of the intermediary should randomly examine a selection of transactions undertaken by

clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

## **10. Suspicious Transaction Monitoring & Reporting**

10.1 Intermediaries should ensure that appropriate steps are taken to enable suspicious transactions to be recognised and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, intermediaries should be guided by the definition of a 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 that appear 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 based in high risk jurisdictions;
- d) Substantial increases in business without apparent cause;
- e) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;

- f) Attempted transfer of investment proceeds to apparently unrelated third parties;
- g) Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services, businesses reported to be in the nature of export-import of small items.

10.3 Any suspicious 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. The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information

10.4 It is likely that in some cases transactions are abandoned or aborted by clients 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 clients, irrespective of the amount of the transaction.

10.5 Clause 5.4(vii) of this Master Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Intermediaries are directed that such clients should also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

## **11. List of Designated Individuals/Entities**

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <http://www.un.org/sc/committees/1267/consolist.shtml>. Registered intermediaries are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Registered intermediaries shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to SEBI and FIU-IND.

## **12. Procedure for freezing of funds, financial assets or economic resources or related services**

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (**UAPA**), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated [August 27, 2009](#) detailing the procedure for the implementation of Section 51A of the UAPA. Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: [ISD/AML/CIR-2/2009](#) dated [October 23, 2009](#), which needs to be complied with scrupulously.

## **13. Reporting to Financial Intelligence Unit-India**

- 13.1 In terms of the PML 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,  
6<sup>th</sup> Floor, Hotel Samrat,



Chanakyapuri,  
New Delhi-110021.

Website: <http://fiuindia.gov.in>

13.2 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 directives 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 with 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 15<sup>th</sup> 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.

13.3 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) shall 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. It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, should file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

#### **14. Designation of an officer for reporting of suspicious transactions**

14.1 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 and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. 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 senior position and is able to discharge the functions with independence and authority.

## **15. Employees' Hiring/Employee's Training/ Investor Education**

### **15.1 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.

### **15.2 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 clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

### **15.3 Investors Education**

Implementation of AML/CFT measures requires intermediaries to demand certain information from investors which may be of personal nature or 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 client with regard to the motive and purpose of collecting such information. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Intermediaries should prepare specific literature/pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

## **16. Annexure:**

### **List of various reports and their formats**

1. Cash Transaction Report Version 1.0 (Guidance Note)
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)
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