



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

RBI/2013-14/10

Master Circular No.10/2013-14  
(As updated upto June 15, 2014)

July 01, 2013

To,

All Authorised Persons in Foreign Exchange

Madam / Sir,

**Master Circular on Memorandum of Instructions  
governing money changing activities**

This Master Circular consolidates the existing instructions on the subject of “Memorandum of Instructions governing money changing activities” at one place. The list of underlying circulars/ notifications is set out in Appendix.

2. This Master Circular may be referred to for general guidance. The Authorised Persons may refer to respective circulars / notifications for detailed information, if so needed.

3. This Master Circular is being issued with a sunset clause. It will stand withdrawn on July 1, 2014 and would be replaced by an updated Master Circular on the subject.

Yours faithfully,

**(B. P. Kanungo)**  
Chief General Manager-in-Charge

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## SECTION-I

### **Guidelines for Licencing and other Approvals for Authorised Money Changers (AMCs)**

#### **1. Introduction**

Authorised Money Changers (AMCs) are entities, authorised by the Reserve Bank under Section 10 of the Foreign Exchange Management Act, 1999. An AMC is a Full Fledged Money Changer (FFMC). In addition to Authorised Dealer Category -I Banks (AD Category-I Banks) and Authorised Dealers Category - II (ADs Category-II), Full Fledged Money Changers (FFMCs) are authorised by the Reserve Bank to deal in foreign exchange for specified purposes, to widen the access of foreign exchange facilities to residents and tourists while ensuring efficient customer service through competition. FFMCs are authorised to purchase foreign exchange from residents and non-residents visiting India and to sell foreign exchange for certain approved purposes. AD Category -I Banks / ADs Category - II / FFMCs may appoint franchisees to undertake purchase of foreign currency\*. No person shall carry on or advertise that he carries on money changing business unless he is in possession of a valid money changer's licence issued by the Reserve Bank. Any person found undertaking money changing business without a valid licence is liable to be penalised under the Act *ibid*.

**\* Note :- Franchisees of AD Category -I Banks / ADs Category - II / FFMCs functioning within 10 kms from the borders of Pakistan and Bangladesh may also sell the currency of the bordering country, with the prior approval of the Regional offices concerned of the Reserve Bank. Other franchises of AD Category -I Banks / ADs Category - II / FFMCs cannot sell foreign currency.**

#### **2. Guidelines for issuance of FFMC Licence :-**

The guidelines for issue of new FFMC licence and renewal of FFMC licence, branch licensing, approval for appointment of agents / franchisees and Know Your Customer (KYC) / Anti Money Laundering (AML) / Combating the Financing of Terrorism (CFT) Guidelines for Authorised Persons are given below.

##### **(i) Entry Norms**

- (i) The applicant has to be a company registered under the Companies Act, 1956.
- (ii) The minimum Net Owned Funds (NOF) required for consideration as FFMC are as follows:

Category	Minimum Net Owned Funds
Single branch FFMC	₹.25 lakh
Multiple branch FFMC	₹.50 lakh

**Note :- The Net Owned Funds of applicants, other than banks, should be calculated as per the following.**

**(a) Owned Funds :- (Paid-up Equity Capital + Free reserves + Credit balance in Profit & Loss A/c) minus (Accumulated balance of loss, Deferred revenue expenditure and Other intangible assets)**

**(b) Net Owned Funds :- Owned funds minus the amount of investments in shares of its subsidiaries, companies in the same group, all (other) non-banking financial companies as also the book value of debentures, bonds, outstanding loans and advances made to and deposits with its subsidiaries and companies in the same group in excess of 10 per cent of the Owned funds.**

(ii) Documentation

Application in the form, as at **Annex - II**, should be submitted to the respective Regional Office of the Foreign Exchange Department of the Reserve Bank under whose jurisdiction the registered office of the applicant falls, along with the following documents:

- (a)** Copy each of the Certificate of Incorporation and Certificate of Commencement of Business of the company.
- (b)** Memorandum and Articles of Association containing a provision for undertaking money changing business or an appropriate amendment to this effect filed with the Company Law Board.

- (c) Copy of the latest audited accounts with a certificate from the Statutory Auditors certifying the Net Owned Funds as on the date of application. Copies of the audited Balance Sheet and Profit & Loss Account of the company for the last three years, wherever applicable.
  - (d) Confidential Report from the applicant's banker in a sealed cover.
  - (e) A declaration to the effect that no proceedings have been initiated by / are pending with the Directorate of Enforcement (DoE) / Directorate of Revenue Intelligence (DRI) or any other law enforcing authorities, against the applicant company or its directors and that no criminal cases are initiated / pending against the applicant company or its directors.
  - (f) A declaration to the effect that proper policy framework on KYC / AML / CFT, in accordance with the guidelines issued vide A.P.(DIR Series) Circular No. 17[ A.P.(FL/RL Series) Circular No. 04] dated November 27, 2009, as amended from time to time, will be put in place on obtaining the approval of the Reserve Bank and before commencement of operations.
  - (g) Details of sister / associated concerns operating in the financial sector, like NBFCs, etc.
  - (h) A certified copy of the board resolution for undertaking money changing business.
- (iii) Basis for Approval
- (i) Since several FFMCS are already functioning, fresh licences will be issued on a selective basis to those who comply with all the licencing requirements.
  - (ii) 'Fit and proper' criteria for the applicant FFMCS #  
If any case by DoE / DRI or any other case by any other law enforcing authorities, is initiated / pending against any company / its directors,

the company will not be considered as 'fit and proper' and its application will not be considered for licencing as FFMC.

**(# Also applicable to non-bank ADs Category - II)**

- (iii) 'Fit and proper' criteria for directors of FFMCs \*

Please see **SECTION- VIII** for the details in this regard.

**(\* Also applicable to non-bank ADs Category - II)**

- (iv) Clearance by the Empowered Committee

The request for issuance of FFMC licence would be considered by the Regional Office concerned of the Reserve Bank on the basis of the clearance by an Empowered Committee, set up for the purpose.

- (v) Reserve Bank's decision in the matter of granting approval or otherwise will be final and binding.
- (vi) On obtaining approval from the Reserve Bank, a copy of the registration under Shops & Establishment Act or any other documentary evidence such as rent receipt, copy of lease agreement, etc. should be submitted to the Regional Office concerned of the Reserve Bank before commencement of the business.
- (vii) The FFMC should commence its operations within a period of **six months** from the date of issuance of licence and inform the Regional Office concerned of the Reserve Bank.
- (viii) New FFMCs should carry out their activities as per the instructions specified in **SECTIONS V and VI** below and other instructions issued by the Reserve Bank from time to time.

**[Note:- Urban Cooperative Banks (UCBs), fulfilling the eligibility norms, would be considered for authorization as Authorised Dealer Category-I / Authorised Dealer Category-II only.]**

## SECTION II

### **Guidelines for Grant of Authorisation for Additional Branches :-**

1. No FFMC shall carry on money changing business at any additional place of business other than its permanent place of business except with the prior approval of the Reserve Bank. An FFMC which intends to commence money changing business at any additional place of business shall apply in writing to the respective Regional Office of the Foreign Exchange Department under whose jurisdiction the registered office of the applicant falls and the Reserve Bank may approve the additional place of business subject to such conditions as deem fit. It is expected that branches of Authorised Persons should be diversified and should be meeting the demand of tourists, *etc.* Preference will be given to applications for branches in remote areas of tourist attraction.

2. Applications for additional locations (places of business) should be accompanied by the following:-

- (a) Copy of the latest audited accounts with a certificate from the Statutory Auditors regarding the position of Net Owned Funds as on the date of application.
- (b) Confidential Report from the applicant's banker in a sealed cover.
- (c) A declaration to the effect that no proceedings have been initiated by / are pending at the Directorate of Enforcement (DoE) / Directorate of Revenue Intelligence (DRI) or any other law enforcing authorities against the applicant or its directors and that no criminal cases are initiated / pending against the applicant or its directors. No new branch license will be issued to any FFMC, against whom any major DoE / DRI case is pending. In DoE / DRI pending cases of a minor nature, a decision will be taken by the Reserve Bank on a case by case basis. The categorization of pending DoE / DRI cases as major / minor will be at the discretion of the Reserve Bank and the decision of the Reserve

Bank will be final and binding. Where any DoE / DRI case is adjudicated and penalty is imposed, a view will be taken, on the basis of the nature of the offence, provided no fresh case is instituted by DoE / DRI.

- (d) A copy of the KYC / AML/ CFT policy framework existing in the company.
  - (e) Brief write-up on the internal control systems, including internal and external audit.
3. A copy of the registration under Shops & Establishment Act or any other documentary evidence such as rent receipt, copy of lease agreement, etc. should be submitted to the Regional Office concerned of the Reserve Bank before commencement of business at an additional branch.
4. For opening Foreign Exchange Counters (full-fledged branches/ extension counters) at the international airports in India, AD Category-I banks/ AD Category – II/ FFMCs should adhere to following conditions.
- (a) Foreign Exchange Counters in the arrival halls in international airports in India shall ideally be established after the Customs Desk (Green Channel/Red Channel). However, Foreign Exchange Counters may also be established between the Immigration Desk and the Customs Desk in international airports in India subject to the condition that these counters shall only purchase foreign currency and sell Indian Rupees (INR) and "Encashment Certificates" shall invariable be issued by the money changers to the customers.
  - (b) Foreign Exchange Counters in the departure halls in international airports in India shall be established only before the Customs Desk or the immigration desk, whichever comes first. Putting up suitable display at these counters, reminding the passengers that the area is the last point for non-residents to possess Indian Rupees (INR) may be followed up with the Airport Authorities.
  - (c) Non-residents can carry Indian currency upto a maximum of ₹.10,000/- beyond Immigration/Customs desk to the Duty Free Area/Security Hold Area



(SHA) in the departure hall in international airports in India for meeting miscellaneous expenditures subject to the condition that non-residents will not be allowed to carry any Indian Rupee beyond SHA and that they should dispose of Indian currency before boarding the plane. In order to provide money changing facility to non-residents to convert unspent Indian Rupees with them, Foreign Exchange Counters in the departure halls in international airports in India may be established in the Duty Free Area/SHA beyond the Immigration/ Customs desk. Such Foreign Exchange Counters will however, only buy Indian Rupees from non-residents and sell foreign currency to them subject to usual terms and conditions. Putting up suitable display at these counters, reminding the passengers that the area is the last point for non-residents to possess Indian Rupees (INR) will be the responsibility of the Airport Authorities.

5. The FFMC should commence operations of its additional branch within a period of **six months** from the date of issuance of licence and inform the Regional Office concerned of the Reserve Bank.

## SECTION III

### **Guidelines for appointment of Agents / Franchisees by Authorized Dealer Category – I Banks, Authorized Dealers Category - II and FFMCs :-**

1. Under the Scheme, the Reserve Bank permits AD Category – I Banks, ADs Category - II and FFMCs to enter into [franchisee (also referred as agency)] agreements at their option for the purpose of carrying on Restricted Money Changing business i.e. conversion of foreign currency notes, coins or travellers' cheques into Indian Rupees.

#### **2. Franchisee**

A franchisee can be any entity which has a place of business and a minimum Net Owned Funds of ₹.10 lakh. Franchisees can undertake only restricted money changing business.

#### **3. Franchisee Agreement**

AD Category-I Banks / ADs Category-II / FFMCs as the franchisers are free to decide on the tenor of the arrangement as also the commission or fee through mutual agreement with the franchisee.

The Agency / Franchisee agreement to be entered into should include the following salient features:

- (a) The franchisees should display the names of their franchisers, exchange rates and that they are authorized only to purchase foreign currency, prominently in their offices. Exchange Rate for conversion of foreign currency into Rupees should be the same or close to the daily exchange rate charged by the AD Category – I Banks / ADs Category - II / FFMC at its branches.
- (b) The foreign currency purchased by the franchisee should be surrendered only to its franchiser within 7 working days from the date of purchase.

- (c) The maintenance of proper record of transactions by the franchisee.
- (d) The on-site inspection of the franchisee by the franchiser should be conducted at least once a year.

#### 4. **Procedure for application**

An AD Category – I Bank / AD Category - II/ FFMC should apply to the respective Regional Office of the Reserve Bank, in Form RMC-F (**Annex-III**) for appointment of franchisees under this Scheme. The application should be accompanied by a declaration that while selecting the franchisees, adequate due diligence has been carried out and that such entities have undertaken to comply with all the provisions of the franchising agreement and prevailing Reserve Bank regulations regarding money changing. Approval would be granted by the Reserve Bank for the first franchisee arrangement. Thereafter, as and when new franchisee agreements are entered into, these would have to be reported to the Reserve Bank in Form RMC-F (**Annex-III**) on a post-facto basis along with similar declaration as indicated above.

#### 5. **Due Diligence of Franchisees**

The AD Category Banks – I / ADs Category – II / FFMCs should undertake the following minimum checks while conducting the due diligence of the franchisees :

- existing business activities of the franchisee/ its position in the area.
- minimum Net Owned Funds of the franchisee.
- Shops & Establishments / other applicable municipal certification in favour of the franchisee.
- verification of physical existence of location of the franchisee, where restricted money changing activities will be conducted.

- conduct certificate of the franchisee from the local police authorities. (certified copy of Memorandum and Articles of Association and Certificate of Incorporation in respect of incorporated entities).

Note: Obtaining of Conduct Certificate of the franchisee from the local police authorities is optional for the franchisers. However, the franchisers may take due care to avoid appointing individuals/ entities as franchisees who have cases / proceedings initiated / pending against them by any law enforcing agencies.

- declaration regarding past criminal case, if any, cases initiated / pending against the franchisee or its directors / partners by any law enforcing agency, if any.
- PAN Card of the franchisee and its directors / partners.
- photographs of the directors / partners and the key persons of franchisee.

The above checks should be done on a regular basis, at least once in a year. The AD Category – I Banks / ADs Category – II / FFCs should obtain from the franchisees proper documentary evidence confirming the location of the franchisees in addition to personal visits to the site. The AD Category –I Banks / ADs Category – II / FFCs should also obtain a Chartered Accountant's certificate confirming the maintenance of the Net Owned Funds of the franchisee, *i.e.*, ₹.10 lakh on an ongoing basis.

## 6. **Selection of Centers**

- (i) The AD Category-I banks / AD Category –II / FFCs may appoint franchisees within a distance of 100 kms. from their controlling branches concerned.
- (ii) However, this distance criterion is exempted in case of a recognized group/ chain of hotels appointed as franchisees, provided the headquarters of the group/

chain of hotels falls within a distance of 100 kms. of the controlling branch of the AD Category – I banks / AD Category – II/ FFMCs (franchiser) concerned.

(iii) Further, in case of areas declared as hilly areas (as defined by the respective State Governments/ Union Territories) and the North-Eastern States, the distance restriction given in point (i) above is not applicable.

## 7. Training

Franchisers are expected to impart training to the franchisees as regards operations and maintenance of records.

## 8. Reporting, Audit and Inspection

The franchisers, i.e. the AD Category–I Banks / ADs Category–II / FFMCs, are expected to put in place adequate arrangements for reporting of transactions by the franchisees to the franchisers on a regular basis (at least monthly). Regular spot audits of all locations of franchisees, at least once in six months, should be conducted by AD Category–I Banks / ADs Category–II / FFMCs. Such audits should involve a dedicated team and **'mystery customer' (individuals acting as potential customers to experience and measure the extent up to which people and process perform as they should)** concept should be used to test the compliance level of the franchisees. A system of annual inspection of the books of the franchisees should also be put in place. The purpose of such inspection is to ensure that the money changing business is being carried out by the franchisees in conformity with the terms of the agreement and prevailing Reserve Bank guidelines and that necessary records are being maintained by the franchisees.

## 9. Anti Money Laundering (AML) / Know Your Customer (KYC) / Combating the Financing of Terrorism (CFT) Guidelines

Franchisees are required to strictly adhere to the AML / KYC/ CFT guidelines, as applicable to AD Category–I Banks / ADs Category – II / FFMCs.

**Note:- No licence for appointment of franchisees will be issued to any FFMC / non-bank AD Category - II, against whom any major DoE / DRI / CBI / Police case is pending. In case where any FFMC / non-bank AD Category - II has received one-time approval for appointing franchisees and subsequent to the date of approval, any DoE / DRI / CBI / Police case is filed, the FFMC / non-bank AD Category - II should not appoint any further franchisees and bring the matter to the notice of the Reserve Bank immediately. A decision will be taken by the Reserve Bank regarding allowing the FFMC / non-bank AD Category - II to appoint franchisees.**

## SECTION IV

### **Guidelines for Renewal of licences of existing FFMCs :**

1. The applicant should be a company registered under the Companies Act, 1956 having registered office within the area of jurisdiction of the respective Regional Office of the Foreign Exchange Department.
2. The Net Owned Funds required are as follows:

<b>Category</b>	<b>Minimum Net Owned Funds</b>
Single branch FFMC	₹.25 lakh
Multiple branch FFMC	₹.50 lakh

3. Applications for renewal should be submitted along with the documents, mentioned below.
  - (a) Copy of the latest audited accounts with a certificate from the Statutory Auditors regarding the position of Net Owned Funds as on date.
  - (b) Confidential Report from the applicant's banker in a sealed cover.
  - (c) A declaration to the effect that no proceedings have been initiated by/ are pending with the Directorate of Enforcement / Directorate of Revenue Intelligence or any other law enforcing authorities against the applicant company or its directors and that no criminal cases are initiated/ pending against the applicant company or its directors.
  - (d) A copy of the KYC / AML / CFT policy framework existing in the company.

**Note :- An application for the renewal of a money-changer's licence shall be made not later than one month, or such other period as the Reserve Bank may prescribe, before the expiry of the licence. Where a person submits an application for the renewal of his money changer's licence, the licence shall continue in force until the date on which the licence is renewed or the application is rejected, as the case may be. No application for renewal of a money-changer's licence shall be made after the expiry of the licence.**

## **SECTION V**

### **Operational Instructions**

#### **1. Bringing in and taking out of Foreign Exchange**

(i) Foreign exchange in any form can be brought into India freely without limit provided it is declared on the Currency Declaration Form (CDF) on arrival to the Custom Authorities. When foreign exchange brought in the form of currency notes or travellers' cheques does not exceed US\$ 10,000/- or its equivalent and / or the value of foreign currency notes does not exceed US\$ 5,000/- or its equivalent, declaration thereof on CDF is not insisted upon.

(ii) Taking out foreign exchange in any form, other than foreign exchange obtained from an authorized dealer or a money changer is prohibited unless it is covered by a general or special permission of the Reserve Bank. Non-residents, however, have general permission to take out an amount not exceeding the amount originally brought in by them, subject to compliance with the provisions of sub-para (i) above.

#### **2. Purchases of Foreign Currency from Public**

(i) Authorised Money Changers (AMCs) / franchisees may freely purchase foreign currency notes, coins and travellers cheques from residents as well as non-residents. Where the foreign currency was brought in by declaring on form CDF, the tenderer should be asked to produce the same. The AMC should invariably insist on production of declaration in CDF.

(ii) AMCs may sell Indian Rupees to foreign tourists / visitors against International Credit Cards / <sup>1</sup>International Debit Cards and take prompt steps to obtain reimbursement through normal banking channels.

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<sup>1</sup> [A.P.\(DIR Series\) Circular No.96 dated 05.04.2013](#)



### **3. Encashment Certificate**

(i) AMCs may issue certificate of encashment when asked for in cases of purchases of foreign currency notes, coins and travellers cheques from residents as well as non-residents. These certificates bearing authorized signatures should be issued on the letter head of the money changer and proper record should be maintained.

(ii) In cases where encashment certificate is not issued, attention of the customers should be drawn to the fact that unspent local currency held by non-residents will be allowed to be converted into foreign currency only against production of a valid encashment certificate.

### **4. Purchases from other AMCs and Authorized Dealers (ADs)**

AMCs may purchase from other AMCs and ADs any foreign currency notes, coins and encashed travellers' cheques tendered in the normal course of business. Rupee equivalent of the amount of foreign exchange purchased should be paid only by way of crossed account payee cheque/Demand Draft Bankers' cheque / Pay order.

### **5. Sale of foreign exchange**

#### **(I) Private Visits**

AMCs may sell foreign exchange up to the prescribed ceiling (currently US \$ 10,000) specified in Schedule III to the Foreign Exchange Management (Current Account Transaction) Rules, 2000 during a financial year to persons resident in India for undertaking one or more private visits to any country abroad (except Nepal and Bhutan). Exchange for such private visits will be available on a self-declaration basis to the traveller regarding the amount of foreign exchange availed during a financial year. Foreign nationals permanently resident in India are also eligible to avail of this quota for private visits provided the applicant is not availing of facilities for remittance of his salary, savings, etc., abroad in terms of extant regulations.

## **(II) Business visits**

AMCs may sell foreign exchange to persons resident in India for undertaking business travel or for attending a conference or specialized training or for maintenance expenses of a patient going abroad for medical treatment or check up abroad or for accompanying as attendant to a patient going abroad for medical treatment / check-up up to the limits (currently US \$ 25,000 per visit) specified in Schedule III to FEMA (Current Account Transactions) Rules, 2000.

## **(III) Forex Pre-paid Cards**

Authorised Dealers Category-II may issue forex pre-paid cards to residents travelling on private/business visit abroad, subject to KYC/AML/CFT requirements. However, the settlement in respect of forex pre-paid cards may be effected through AD Category-I banks.

## **Conditions**

- i. The Reserve Bank will not generally, prescribe the documents which should be verified by the AMCs while releasing foreign exchange. In this connection, attention of AMCs is drawn to sub-section (5) of Section 10 of FEMA, 1999.
- ii. In case of issue of travellers' cheques, the traveler should sign the cheques in the presence of an authorized official and the purchaser's acknowledgement for receipt of the travellers' cheques should be held on record.
- iii. AMCs may release foreign exchange for travel purposes on the basis of a declaration given by the traveler regarding the amount of foreign exchange availed of during the financial year.
- iv. AMCs may accept payment in cash up to ₹.50,000/- (Rupees fifty thousand only) against sale of foreign exchange for travel abroad (for private visit or for any other purpose). Wherever the sale of foreign exchange exceeds the amount equivalent to ₹.50,000/-, the payment must be received only by a crossed cheque drawn on the applicant's bank account or crossed cheque drawn on the bank

account of the firm / company sponsoring the visit of the applicant or Banker's cheque / Pay Order / Demand Draft. For this purpose, where the Rupee equivalent of foreign exchange drawn exceeds Rs ₹.50,000/- either for any single drawal or more than one drawal reckoned together for a single journey visit, it should be paid by crossed cheque Banker's cheque / Pay Order / Demand Draft. In addition to the payment by Rupees/ through crossed cheque/ Banker's cheque/ Pay order/ Demand draft, AMCs may also accept the payments made by the traveller through debit cards/ credit cards/ prepaid cards for travel abroad (for private visit or for any other purpose) provided- (i) KYC/ AML / CFT guidelines are complied with, (ii) sale of foreign currency/ issue of foreign currency travellers' cheques is within the limits (credit/ prepaid cards) prescribed by the bank, (iii) the purchaser of foreign currency/ foreign currency travellers' cheque and the credit/ debit/ prepaid card holder is one and the same person.

- v. The sale of foreign currency notes and coins within the overall entitlement of foreign exchange should be restricted to the limits prescribed by the Reserve Bank from time to time for the country of visit of the traveller.

## **6. Sales against Reconversion of Indian Currency**

AMCs may convert into foreign currency, unspent Indian currency held by non-residents at the time of their departure from India, provided a valid Encashment Certificate is produced.

**Note (1)** : AMCs may convert at their discretion, unspent Indian currency up to ₹.10,000 in the possession of non-residents if, for bonafide reasons, the person is unable to produce an Encashment Certificate after ensuring that the departure is scheduled to take place within the following seven days.

**Note (2)** : ADs Category – I, ADs Category – II and FFMCs may provide facility for reconversion of Indian Rupees to the extent of Rs ₹.50,000/- to foreign tourists (**not NRIs**) against ATM Receipts based on the following documents.

- Valid Passport and VISA
- Ticket confirmed for departure within 7 days.

- Original ATM slip (to be verified with the original debit/ credit card).

## **7. Cash Memo**

AMCs may issue a cash memo, if asked for, on official letterhead to travellers to whom foreign currency is sold by them. The cash memo may be required for production to emigration authorities while leaving the country.

## **8. Rates of Exchange**

AMCs may put through transactions relating to foreign currency notes and travellers' cheques at rates of exchange determined by market conditions and in alignment with the ongoing market rates.

## **9. Display of Exchange Rate Chart**

AMCs should display at a prominent place in or near the public counter, a chart indicating the rates for purchase/sale of foreign currency notes and travellers' cheques for all the major currencies and the card rates for any day, should be updated, latest by 10:30 a.m.

## **10. Foreign Currency Balances**

- (i) AMCs should keep balances in foreign currencies at reasonable levels and avoid build up of idle balances with a view to speculating on currency movements.
- (ii) Franchisees should surrender foreign currency notes, coins and travellers' cheques purchased only to their franchisers within seven working days.

(iii) The transactions between authorized dealers and FFCs should be settled by way of account payee crossed cheques / demand drafts. Under no circumstances should settlement be made in cash.

#### **11. Replenishment of Foreign currency Balances**

(i) AMC's may obtain their normal business requirements of foreign currency notes from other AMC's / authorized dealers in foreign exchange in India, against payment in rupees made by way of account payee crossed cheque / Demand Draft.

(ii) Where AMC's are unable to replenish their stock in this manner, they may make an application to the Forex Markets Division, Foreign Exchange Department, Central Office, Reserve Bank of India, Mumbai through an AD Category-I for permission to import foreign currency into India. The import should take place through the designated AD Category-I through whom the application is made.

#### **12. Export / Disposal of surplus Foreign Currency Notes / Travellers' Cheques**

AMC's may export surplus foreign currency notes / encashed travellers' cheques to an overseas bank through designated Authorized Dealer Category - I in foreign exchange for realization of their value through the latter. FFCs may also export surplus foreign currency to private money changers abroad subject to the condition that either the realizable value is credited in advance to the AD Category – I bank's nostro account or a guarantee is issued by an international bank of repute covering the full value of the foreign currency notes / coins to be exported.

#### **13. Write-off of fake foreign currency notes**

In the event of foreign currency notes purchased being found fake/forged subsequently, AMC's may write-off up to US \$ 2000 per financial year after approval of their Top Management after exhausting all available options for recovery of the amount. Any write-off in excess of the above amount, would require the approval of

the Regional Office concerned of the Foreign Exchange Department of the Reserve Bank.

#### **14. Registers and Books of Accounts of Money-changing Business**

- (i) AMCs shall maintain the following Registers in respect of their money-changing transactions :
  - (a) Daily Summary and Balance Book (Foreign currency notes / coins) in form **FLM 1 (Annex-IV)**.
  - (b) Daily Summary and Balance Book (Travellers' cheques) in form **FLM 2 (Annex-V)**.
  - (c) Register of purchases of foreign currencies from the public in form **FLM 3 (Annex-VI)**.
  - (d) Register of purchases of foreign currency notes / coins from authorized dealers and authorized money changers in form **FLM 4 (Annex-VII)**.
  - (e) Register of sales of foreign currency notes / coins and foreign currency travellers' cheques to the public in form **FLM 5 (Annex-VIII)**.
  - (f) Register of sales of foreign currency notes / coins to authorized dealers / Full Fledged Money Changers / overseas banks in form **FLM 6 (Annex-IX)**.
  - (g) Register of travellers' cheques surrendered to authorized dealers / authorized money changers / exported in form **FLM 7 (Annex-X)**.
- (ii) All registers and books should be kept up-to-date, cross-checked and balances verified daily.
- (iii) Transactions not pertaining to money changing business of the AMC should not be mixed up with money changing transactions. In other words, the registers and books of account should show clearly the trail of transactions pertaining to money changing business.
- (iv) Separate registers should be maintained for each establishment, if the AMC maintains more than one place of business.

**Note :- Inter-branch transfer of foreign currencies should be accounted as stock transfer and not as sales.**

**15. Submission of Statements to the Reserve Bank**

- (i) AMCs should submit to the office of the Reserve Bank which has issued the license, a monthly consolidated statement for all its offices in respect of sale and purchase of foreign currency notes in form **FLM 8 (Annex-XI)** so as to reach not later than the 10<sup>th</sup> of the succeeding month.
- (ii) AMCs should submit to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank, a monthly statement indicating details of receipt / purchase of US \$ 10,000 (or its equivalent) and above per transactions in the enclosed format as at **Annex-XII**, within 10 days of the close of the month. FFCs / ADs Category - II should include transactions of their franchisees in their statement.
- (iii) AMCs should submit a quarterly statement regarding Foreign Currency Account/s maintained in India in their names with AD Category-I Banks to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank as per the format in **Annex-XIII**.
- (iv) An Annual Statement should be submitted by all the AMCs to the respective Regional Offices of the Foreign Exchange Department, Reserve Bank which have issued the licenses within one month of the financial year-end, giving the details of the amount written off during the financial year, as per the format as at **Annex-XIV**.

**16. Inspection of Transactions of AMCs**

Section 12(1) of Foreign Exchange Management Act 1999, empowers any officer of Reserve Bank specially authorized in this behalf to inspect the books and accounts and other documents of AMCs. The AMCs should provide all assistance and co-operation to Inspecting Officers in carrying out their inspection. Failure to produce

any books of account or other document or to furnish any statement or information or to answer any question relating to the money changing transactions to the Inspecting Officers, shall be deemed to be a contravention of the provisions of the Act *ibid*.

#### **17. Concurrent Audit**

(i) AMCs should put in place a system of Concurrent Audit of the transactions undertaken by them.

(ii) All single branch AMCs having a turnover of more than US \$ 100,000 or equivalent per month . Single branch AMCs having turnover of less than US \$ 100,000 or its equivalent may institute a system of quarterly audit. AMCs having multiple branches, may put in place a system of Concurrent Audit which will cover 80 per cent of the transactions value-wise under a system of monthly audit and rest 20 per cent of the transactions value-wise under quarterly audit.

(iii) Appointment / selection of concurrent auditors is left to the discretion of the AMCs. The concurrent auditors should check all the transactions of the AMCs and ensure that all the instructions issued by the Reserve Bank from time to time have been complied with. The Statutory Auditors are required to certify that the Concurrent Audit and the internal control systems are working satisfactorily.

#### **18. Temporary Money Changing Facilities**

AMCs are authorized to transact money changing business only at the location or locations specifically indicated in the licence. If it is intended to provide money changing facilities on a temporary basis on certain special occasions, a separate application should be made for the purpose to the Regional Office concerned of the Foreign Exchange Department of the Reserve Bank. Full details such as period for which the exchange counter will be operated, volume of business expected, manner of accounting of the transactions, letter from organizers making available venue for the money changing facilities, etc. should be submitted.



## **19. (A) Opening of Foreign Currency Accounts by AMCs**

AMCs, with the approval of the respective Regional Offices of the Foreign Exchange Department, may be allowed to open Foreign Currency Accounts in India, subject to the following conditions:-

- (i) Only one account may be permitted at a particular centre.
- (ii) Only the value of foreign currency notes/ encashed TCs exported through the specific bank and realized can be credited to the account.
- (iii) Balances in the accounts shall be utilized only for settlement of liabilities on account of-
  - (a) TCs sold by the AMCs and
  - (b) Foreign currency notes acquired by the AMCs from AD Category-I banks.
- (iv) No idle balance shall be maintained in the said account.

## **(B) Opening of Nostro Account by Authorised Dealers Category-II**

Authorised Dealers Category-II may open Nostro Accounts after getting one time approval from the Reserve Bank, subject to following terms and conditions.

- i) Only one Nostro account for each currency may be opened;
- ii) Balances in the account should be utilized only for the settlement of remittances sent for permissible purposes and not for the settlement in respect of forex prepaid cards;
- iii) No idle balance shall be maintained in the said account; and
- iv) They will be subject to reporting requirements as prescribed from time to time.

## **20. Submission of Balance Sheet and maintenance of NOF**

All AMC's are required to submit their annual audited balance sheet to the respective Regional office of the Reserve Bank for the purpose of verification of their Net Owned Funds along-with a certificate from the statutory auditors regarding the NOF as on the date of the balance sheet. As AMC's are expected to maintain the minimum NOF on an ongoing basis, if there is any erosion in their NOF below the minimum level, they are required to bring it to the notice of the Reserve Bank immediately along with a detailed time bound plan for restoring the Net Owned Funds to the minimum required level.

## **21. Participation by Full Fledged Money Changers (FFMCs) and Authorised Dealers Category-II (ADs Category-II) in the Currency Futures and Exchange traded Currency Options markets**

FFMCs and ADs Category-II [which are not Regional Rural Banks (RRBs), Local Area Banks (LABs), Urban Co-operative Banks (UCBs) and Non-Banking Financial Companies (NBFCs)], having a minimum net worth of ₹.5 crore, may participate in the designated currency futures and currency options on exchanges recognized by the Securities and Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying foreign exchange exposures. FFMCs and ADs Category-II which are RRBs, LABs, UCBs and NBFCs, may be guided by the instructions issued by the respective regulatory Departments of the Reserve Bank in this regard.

## **SECTION VI**

### **KYC/ AML/ CFT Guidelines**

Detailed Know Your Customer (KYC) /Anti-Money Laundering (AML) /Combating the Financing of Terrorism (CFT) guidelines in respect of money changing activities are detailed in **Annex-I**.

## **SECTION VII**

### **Revocation of Licence**

The Reserve Bank reserves the right to revoke the licence granted to an AMC at any time if the Reserve Bank is satisfied that (a) it is in public interest to do so or (b) the AMC has failed to comply with any condition subject to which the authorisation is granted or has contravened any of the provisions of the Foreign Exchange Management Act, 1999 or any rule, regulation, notification, direction or order made there-under. The Reserve Bank also reserves the right to revoke the authorisation of any of the offices for infringement of any statutory or regulatory provision. The Reserve Bank may at any time vary or revoke any of the existing conditions of a money changer's licence or impose new conditions.

## SECTION VIII

[See SECTION I, Paragraph 2 (iii) (iii)]

### **'Fit and proper' criteria for directors of FFCs / non-bank ADs Category - II**

(a) The Boards of FFCs / non-bank ADs Category - II should undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. For assessing integrity and suitability, factors like criminal record, if any, financial position, civil action initiated to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions imposed by regulators or similar bodies, previous questionable business practices, etc. should be considered. The Board of Directors should assess 'fit and proper' status by calling for information by way of self-declaration, verification reports from market, etc. FFCs / non-bank ADs Category - II should obtain necessary information and declaration from the proposed / existing directors for the purpose in Proforma given at the end.

(b) The process of due diligence should be undertaken by the FFCs / non-bank ADs Category - II at the time of appointment / renewal of appointment.

(c) The Boards of the FFCs / non-bank ADs Category - II should constitute Nomination Committees to scrutinize the declarations.

(d) Based on the information provided in the signed declaration, Nomination Committees should decide on the acceptance or otherwise and may make references, where considered necessary to the appropriate authority / persons, to ensure their compliance with the requirements indicated.

(e) FFCs / non-bank ADs Category - II should obtain annually as on 31<sup>st</sup> March a simple declaration that the information already provided has not undergone

change and where there is any change, requisite details are furnished by the directors forthwith.

(f) Further, the candidate should normally not exceed 70 years of age, should not be a Member of Parliament / Member of Legislative Assembly / Member of Legislative Council.

(g) Any change in directors during the year should be reported to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank of India in the Proforma given below.

(h) Comments of respective Departments of the Reserve Bank will be obtained on the operations of an applicant who / whose parent organisation is already licenced / authorised by the Reserve Bank.

### **Proforma**

#### **Information about New Directors / Change of Directors of the FFMC / non-bank AD Category – II**

1. Name :
2. Designation :
3. Nationality :
4. Age :
5. Business Address :
6. Residential Address :
7. Educational / professional qualifications :
8. Line of business or vocation :
9. Name/s of other companies in which the person has held the post of Chairman / Managing Director / Director / Chief Executive Officer :

10. (i) Whether associated as promoter, Managing Director, Chairman or Director with any other FFMC / AD Category - II? :
- (ii) If yes, the name/s of the company/ies :
11. (i) Whether prosecuted/convicted for any economic offence either in the individual capacity or as a partner / director of any firm / company :
- (ii) If yes, particulars thereof :
12. Experience in money changing business (number of years) :
13. Equity shareholding in the company
- No. of shares :
- Face value :
- Percentage to total equity share capital of the company: :

Signature : Name :

Date : Designation :

Place : (Chief Executive Officer)

Company :

**PART A**

**KYC / AML / CFT Guidelines for money changing activities**

**Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards / Combating the Financing of Terrorism (CFT) / Obligation of APs under Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009 – Money Changing activities**

**1. Introduction**

The offence of Money Laundering has been defined in Section 3 of the Prevention of Money Laundering Act, 2002 (PMLA) as "whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering". Money Laundering can be called a process by which money or other assets obtained as proceeds of crime are exchanged for "clean money" or other assets with no obvious link to their criminal origins.

There are three stages of money laundering during which there may be numerous transactions made by launderers that could alert an institution to criminal activity –

- **Placement** - the physical disposal of cash proceeds derived from illegal activity.
- **Layering** - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.
- **Integration** - the provision of apparent legitimacy to criminally derived wealth. If the layering process has succeeded, integration schemes place the



laundered proceeds back into the economy in such a way that they re-enter the financial system appearing to be normal business funds.

## **2. The objective**

The objective of prescribing KYC/AML/CFT guidelines is to prevent the system of purchase and / or sale of foreign currency notes / Travellers' cheques by Authorised Persons (referred as APs hereinafter) from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable APs to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently.

## **3. Definition of Customer**

For the purpose of KYC policy, a 'Customer' is defined as :

- a person who undertakes occasional/regular transactions;
- an entity that has a business relationship with the AP;
- one on whose behalf the transaction is made (i.e. the beneficial owner)

[In view of Government of India Notification dated February 12, 2010 - Rule 9, sub-rule (1 A) of PML Rules - 'Beneficial Owner' means the natural person who ultimately owns or controls a client and or the person on whose behalf a transaction is being conducted, and includes a person who exercise ultimate effective control over a juridical person].

## **4. Guidelines**

### **4.1 General**

APs should keep in mind that the information collected from the customer while undertaking transactions is to be treated as confidential and details thereof are not to be divulged for cross selling or any other like purposes. APs should, therefore, ensure that information sought from the customer is relevant to the perceived risk, is

not intrusive, and is in conformity with the guidelines issued in this regard. Any other information from the customer, wherever necessary, should be sought separately with his/her consent.

## **4.2 KYC Policy**

APs should frame their KYC policies incorporating the following four key elements:

- a)** Customer Acceptance Policy;
- b)** Customer Identification Procedures;
- c)** Monitoring of Transactions; and
- d)** Risk Management.

## **4.3 Customer Acceptance Policy (CAP)**

**a)** Every AP should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the AP:

- (i)** No transaction is conducted in anonymous or fictitious/benami name(s).

[In view of In terms of Government of India Notification dated June 16, 2010 Rule 9, sub-rule (1C) - APs should not allow any transaction in any anonymous or fictitious name (s) or on behalf of other persons whose identity has not been disclosed or cannot be verified].

- (ii)** Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc. to enable categorisation of customers into low, medium and high risk (APs may choose any suitable nomenclature viz. level I, level II and level III). Customers requiring very high level of monitoring, e.g. Politically

Exposed Persons (PEPs) may, if considered necessary, be categorised even higher.

- (iii)** Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009, 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 as well as instructions/guidelines issued by the Reserve Bank, from time to time.
  - (iv)** Not to undertake any transaction where the AP is unable to apply appropriate customer due diligence measures i.e. AP is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non cooperation of the customer or non reliability of the data/information furnished to the AP. It is, however, necessary to have suitable built in safeguards to avoid harassment of the customer. In the circumstances when an AP believes that it would no longer be satisfied that it knows the true identity of the customer (individual/ business entity), the AP should file an STR with FIU-IND.
  - (v)** Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out, the beneficial owner should be identified and all reasonable steps should be taken to verify his identity.
- b)** APs should prepare a profile for each customer, where a business relationship is established, based on risk categorisation. The customer profile may

contain information relating to customer's identity, his sources of funds, social/financial status, nature of business activity, information about his clients' business and their location etc. The nature and extent of due diligence will depend on the risk perceived by the AP. However, while preparing customer profile, APs should take care to seek only such information from the customer, which is relevant to the risk category. The customer profile is a confidential document and details contained therein should not be divulged for cross selling or any other purposes.

**c)** For the purpose of risk categorisation, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions by whom by and large conform to the known profile, may be categorised as low risk. Customers that are likely to pose a higher than average risk should be categorised as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. APs should apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear. Examples of customers requiring enhanced due diligence include (a) nonresident customers;(b) customers from countries that do not or insufficiently apply the FATF standards (c) high net worth individuals; (d) trusts, charities, NGOs and organizations receiving donations; (e) companies having close family shareholding or beneficial ownership; (f) firms with 'sleeping partners '; (g) politically exposed persons (PEPs); (h) non-face to face customers ; and (i) those with dubious reputation as per public information available etc. However, only Non Profit Organisations (NPOs)/ Non Government Organisations (NGOs) promoted by United Nations or its agencies may be classified as low risk customer.

**d)** It is important to bear in mind that the adoption of customer acceptance policy and its implementation should not become too restrictive and must not result in denial of money changing services to general public.

#### **4.4 Customer Identification Procedure (CIP)**

a) The policy approved by the Board of APs should clearly spell out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a business relationship; carrying out a financial transaction or when the AP has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. APs need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether occasional or business relationship, and the purpose of the intended nature of relationship. Being satisfied means that the AP must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Such risk based approach is considered necessary to avoid disproportionate cost to APs and a burdensome regime for the customers.

Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc.). For customers that are natural persons, the APs should obtain sufficient identification document/s to verify the identity of the customer and his address/location. For customers that are legal persons or entities, the AP should (i) verify the legal status of the legal person/entity through proper and relevant documents; (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorised and identify and verify the identity of that person; and (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution are given in paragraph 4.5 below for guidance of APs. APs may, however, frame their own internal guidelines based on their experience of dealing with such persons/entities, their normal prudence and the legal requirements as per established practices. If the AP decides to undertake such transactions in terms of

the Customer Acceptance Policy, the AP should take reasonable measures to identify the beneficial owner(s) and verify his/ her/t heir identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are [In view of Government of India Notification dated June 16, 2010 - Rule 9 sub-rule (1A) of PML Rules].

Note : Rule 9(1A) of Prevention of Money Laundering Rules 2005 requires that every Authorised Person under money changing activity shall identify the beneficial owner and take all reasonable steps to verify his identity while undertaking money changing activities. The term "beneficial owner" has been defined as the natural person who ultimately owns or controls a client and/or the person on whose behalf the transaction is being conducted, and includes a person who exercises ultimate effective control over a juridical person. Government of India has since examined the issue and has specified the procedure for determination of Beneficial Ownership. The procedure as advised by the Government of India is as under:

A. Where the client is a person other than an individual or trust, the Authorised Person shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

(i) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Explanation: Controlling ownership interest means ownership of/entitlement to more than 25 percent of shares or capital or profits of the juridical person, where the juridical person is a company; ownership of/entitlement to more than 15% of the capital or profits of the juridical person where the juridical person is a partnership; or, ownership of/entitlement to more than 15% of the property or capital or profits of the juridical person where the juridical person is an unincorporated association or body of individuals.

(ii) In cases where there exists doubt under (i) as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements, etc.

(iii) Where no natural person is identified under (i) or (ii) above, the identity of the relevant natural person who holds the position of senior managing official.

B. Where the client is a trust, the Authorised Person shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

C. Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

**b)** Some close relatives, *e.g.*, wife, son, daughter and parents etc. who live with their husband, father/mother and son/ daughter, as the case may be, may find it difficult to undertake transactions with APs as the utility bills required for address verification are not in their name. It is clarified, that in such cases, APs can obtain an identity document and a utility bill of the relative with whom the prospective customer is living along with a declaration from the relative that the said person (prospective customer) wanting to undertake a transaction is a relative and is staying with him/her. APs can use any supplementary evidence such as a letter received through

post for further verification of the address. While issuing operational instructions to the branches on the subject, APs should keep in mind the spirit of instructions issued by the Reserve Bank and avoid undue hardships to individuals who are, otherwise, classified as low risk customers.

**c)** APs should introduce a system of periodic updation of customer identification data (including photograph/s) if there is a continuing business relationship.

**d)** An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in **PART B of Annex-I** of this circular. It is clarified that correct permanent address, as referred to in **PART B of Annex-I**, means the address at which a person usually resides and can be taken as the address as mentioned in a utility bill or any other document accepted by the AP for verification of the address of the customer. When there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained customer identification data, APs should review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be. [In view of Government of India Notification dated June 16, 2010- Rule 9 sub-rule (1D) of PML Rules].

**e) Purchase of foreign exchange from customers**

(i) For purchase of foreign currency notes and/ or Travellers' Cheques from customers for any amount less than ₹.50,000/- or its equivalent, photocopies of the identification document need not be obtained. However, full details of the identification document should be maintained. If the Authorised Person has reason to believe that a customer is intentionally structuring a transaction into a series of transactions below the threshold of ₹.50000/-, the A.P. should verify identity and address of the customer and also consider filing a suspicious transaction report to FIU-IND.



(ii) For purchase of foreign currency notes and/ or Travellers' Cheques from customers for any amount equal to or in excess of ₹.50,000/- or its equivalent, the identification documents, as mentioned at **PART B of Annex-I** of this circular, should be verified and copies retained.

(iii) (a) Requests for payment in cash in Indian Rupees to resident customers towards purchase of foreign currency notes and/ or Travellers' Cheques from them may be acceded to the extent of only US \$ 1000 or its equivalent per transaction.

(b) Requests for payment in cash by foreign visitors / Non-Resident Indians may be acceded to the extent of only US \$ 3000 or its equivalent.

(c) All purchases within one month, i.e. within 30 days from the date of last transaction, may be treated as single transaction for the above purpose and also for reporting purposes.

(d) In all other cases, APs should make payment by way of 'Account Payee' cheque / demand draft only.

(iv) Where the amount of forex tendered for encashment by a non-resident or a person returning from abroad exceeds the limits prescribed for Currency Declaration Form (CDF), the AP should invariably insist for production of declaration in CDF.

(v) In case of any suspicion of money laundering or terrorist financing, irrespective of the amount involved, enhanced Customer Due Diligence (CDD) should be applied. Whenever there is a suspicion of money laundering or terrorist financing or when other factors give rise to a belief that the customer does not in fact pose a low risk, APs should carry out a full scale CDD before undertaking any transaction for the customer.

**f) Sale of foreign exchange to customers**

(i) **In all cases of sale of foreign exchange, irrespective of the amount involved**, for identification purpose the passport of the customer

should be insisted upon and sale of foreign exchange should be made only on personal application and after verification of the identification document. A copy of the identification document should be retained by the AP.

(ii) Payment in excess of ₹.50,000/- towards sale of foreign exchange should be received only by crossed cheque drawn on the bank account of the applicant's firm/ company sponsoring the visit of the applicant / Banker's cheque / Pay Order / Demand Draft. Such payment can also be received through debit cards/ credit cards/ prepaid cards provided (a) KYC/ AML / CFT guidelines are complied with, (b) sale of foreign currency/ issue of Foreign Currency Travellers' cheques is within the limits (credit/ prepaid cards) prescribed by the bank, (c) the purchaser of foreign currency/ Foreign Currency Travellers' cheque and the credit/ debit/ prepaid card holder is one and the same person.

(iii) All purchases made by a person within one month i.e. within 30 days from the date of last transaction, may be treated as single transaction for the above purpose and also for reporting purposes. For sale of foreign exchange to a person within his/her eligibility through more than one drawal within 30 days or for a single journey/visit abroad, APs may receive second and subsequent payments only by crossed cheque drawn on the bank account of the applicant's firm/company sponsoring the visit of the applicant/Bank's cheque / Pay Order / Demand Draft / debit cards / credit cards / prepaid cards, if the total rupee payment, including payments on earlier drawal /s, exceeds ₹.50,000/- on the second or subsequent drawals.

(iv) Encashment Certificate, wherever required, should also be insisted upon.

**g) Establishment of business relationship**

Relationship with a business entity like a company / firm/ trusts and foundations should be established only after conducting due diligence by obtaining and verifying suitable documents, as mentioned at **PART B of Annex-I** of this circular. Copies of all documents called for verification should be kept on record. APs should obtain

information on the purpose and intended nature of the business relationship. APs should exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, its business and risk profile. APs should ensure that documents, data or information collected under the Customer Due Diligence process is kept up-to-date and relevant by undertaking reviews of existing records, particularly for higher risk categories of customers or business relationships. When a business relationship is already in existence and it is not possible to perform customer due diligence on the customer in respect of business relationship, APs should terminate the business relationship and make a Suspicious Transaction Report to FIU-IND. In the circumstances when an AP believes that it would no longer be satisfied that it knows the true identity of the customer (individual/ business entity), the AP should also file an STR with FIU-IND.

#### **4.5 Customer Identification Requirements – Indicative Guidelines**

##### **i) Transactions by Trust/Nominee or Fiduciary Customers**

There exists the possibility that trust/nominee or fiduciary relationship can be used to circumvent the customer identification procedures. APs should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, APs should insist on receipt of satisfactory document of identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While undertaking a transaction for a trust, APs should take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. In all cases beneficiaries should be identified with reference to necessary documents. In the case of a 'foundation', steps should be taken to verify the founder managers/ directors and the beneficiaries.

##### **ii) Transactions by companies and firms**

APs need to be vigilant against business entities being used by individuals as a 'front' for undertaking transactions with APs. APs should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a company that is listed on a recognized stock exchange, it will not be necessary to identify all the shareholders.

### **iii) Transactions by Politically Exposed Persons (PEPs)**

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. APs should gather sufficient information on any person/customer of this category intending to undertake a transaction or establish a business relationship and check all the information available on the person in the public domain. APs should verify the identity of the person and seek information about the source of wealth and source of funds before accepting the PEP as a customer. The decision to undertake a transaction with a PEP should be taken at a senior level which should be clearly spelt out in the Customer Acceptance Policy. APs should also subject such transactions to enhanced monitoring on an ongoing basis. The above norms may also be applied to transactions with the family members or close relatives of PEPs. The above norms may also be applied to customers who become PEPs subsequent to establishment of the business relationship.

Where a customer subsequently becomes a PEP after a business relationship has already been established, enhanced CDD should be performed on such customers and decision to continue business relationship with the PEP should be taken at a sufficiently senior level. These instructions are also applicable to individual transactions/ business relationship where a PEP is the ultimate beneficial owner. Further, in regard to individual transactions/ business relationship in case of PEPs, it

is reiterated that APs should have appropriate ongoing risk management procedures for identifying and applying enhanced CDD to PEPs, customers who are family members or close relatives of PEPs and individual transactions/ business relationship of which a PEP is the ultimate beneficial owner.

#### **4.6 Monitoring of Transactions**

Ongoing monitoring is an essential element of effective KYC procedures. APs can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the transaction. APs should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. APs may prescribe threshold limits for a particular category of transaction and pay particular attention to the transactions which exceed these limits. High-risk transactions have to be subjected to intensified monitoring. Every AP should set key indicators for such transactions, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors. APs should put in place a system of periodical review of risk categorization of customers and the need for applying enhanced due diligence measures. Such review of risk categorisation of customers should be carried out periodically.

APs should exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the client, his business and risk profile and where necessary, the source of funds. [In view of Government of India Notification dated June 16, 2010 -Rule 9,sub-rule (1B)]

APs should examine the background and purpose of transactions with persons (including legal persons and other financial institutions) from jurisdictions included in FATF Statements and countries that do not or insufficiently apply the FATF

Recommendations. Further, if the transactions have no apparent economic or visible lawful purpose, the background and purpose of such transactions should, as far as possible, be examined and written findings together with all the documents should be retained and made available to the Reserve Bank/ other relevant authorities, on request.

#### **4.7 Attempted transactions**

Where the AP is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the AP should not undertake the transaction. Under these circumstances, APs should make a suspicious transactions report to FIU-IND in relation to the customer, even if the transaction is not put through.

#### **4.8 Risk Management**

a) The Board of Directors of the AP should ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring effective implementation. It should cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the AP for ensuring that the APs' policies and procedures are implemented effectively. APs should, in consultation with their boards, devise procedures for creating risk profiles of their existing and new customers and apply various anti money laundering measures keeping in view the risks involved in a transaction or business relationship.

b) APs' internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of the AP's own policies and procedures, including legal and regulatory requirements. APs should ensure that their audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. The concurrent auditors should check all transactions to verify that they have been undertaken in compliance with the anti-

money laundering guidelines and have been reported whenever required to the concerned authorities. Compliance on the lapses, if any, recorded by the concurrent auditors should be put up to the Board. A certificate from the Statutory Auditors on the compliance with KYC/ AML/ CFT guidelines should be obtained at the time of preparation of the Annual Report and kept on record.

#### **4.9 Introduction of New Technologies- Pre-paid cards**

APs should pay special attention to any money laundering threats that may arise from new or developing technologies that might favour anonymity and take measures, to prevent their use in money laundering purposes. Certain AD Category-I banks are engaged in issuance of Foreign currency denominated pre-paid cards to travelers going abroad. While issuing these pre-paid cards, it should be ensured by the AD Category-I banks that all the KYC/ AML/CFT Guidelines are fully complied with. It is also desirable that, certain APs, who are not eligible to issue such cards but are involved in marketing these cards on behalf of card issuing banks, as well as their customers, are also subjected to KYC measures.

#### **4.10 Combating Financing of Terrorism**

**a)** In terms of PML Rules, suspicious transaction should include, *inter alia* transactions which give rise to a reasonable ground of suspicion that it may involve the proceeds of an offence mentioned in the Schedule to the PMLA, regardless of the value involved. APs should, therefore, develop suitable mechanism through appropriate policy framework for enhanced monitoring of transactions suspected of having terrorist links and swift identification of the transactions and making suitable reports to the Financial Intelligence Unit – India (FIU-IND) on priority.

**b)** APs are advised to take into account risks arising from the deficiencies in AML/CFT regime of certain jurisdictions viz. Iran, Uzbekistan, Pakistan, Turkmenistan, Sao Tome and Principe, Democratic People's Republic of Korea (DPRK), Bolivia, Cuba, Ethiopia, Kenya, Myanmar, Sri Lanka, Syria and Turkey as identified in FATF Statement ([www.fatf-gafi.org](http://www.fatf-gafi.org)), issued from time to time, while

dealing with individuals or businesses from these jurisdictions. In addition to FATF Statements circulated by the Reserve Bank of India from time to time (latest as on June 21,, 2013 circulated vide the A.P.(DIR Series) Circular No. 34 dated September 04, 2013 ) APs should also consider using publicly available information for identifying countries, which do not or insufficiently apply the FATF Recommendations. APs are accordingly advised to take into account risks arising from the deficiencies in AML/ CFT regime of these countries, while entering into business relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries/ jurisdictions and give special attention to these cases.

#### **4.11 Applicability to branches and subsidiaries outside India**

The guidelines contained in this circular shall apply to the branches and majority owned subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws permit. When local applicable laws and regulations prohibit implementation of these guidelines, the same should be brought to the notice of the Reserve Bank. In case there is a variance in KYC/AML/ CFT standards prescribed by the Reserve Bank and the host country regulators, branches/overseas subsidiaries of APs are required to adopt the more stringent regulation of the two.

#### **4.12 Principal Officer**

a) APs should appoint a senior management officer to be designated as Principal Officer. Principal Officer shall be located at the head/corporate office of the AP and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. The role and responsibilities of the Principal Officer should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/ AML/ CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, as amended by Prevention of Money



Laundering (Amendment) Act, 2009, rules and regulations made there under, as amended from time to time. The Principal Officer should also be responsible for developing appropriate compliance management arrangements across the full range of AML/CFT areas (e.g. CDD, record keeping, etc.). He will maintain close liaison with enforcement agencies, APs and any other institution which are involved in the fight against money laundering and combating financing of terrorism. With a view to enable the Principal Officer to discharge his responsibilities, it is advised that that the Principal Officer and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information. Further, APs should ensure that the Principal Officer is able to act independently and report directly to the senior management or to the Board of Directors.

**b)** The Principal Officer will be responsible for timely submission of CTR and STR to the FIU-IND.

#### **4.13 Maintenance of records of transactions/Information to be preserved/Maintenance and preservation of records/Cash and Suspicious transactions reporting to Financial Intelligence Unit- India (FIU-IND)**

Section 12 of the Prevention of Money Laundering Act (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009, casts certain obligations on the APs in regard to preservation and reporting of transaction information. APs are, therefore, advised to go through the provisions of Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009 and the Rules notified there under and take all steps considered necessary to ensure compliance with the requirements of Section 12 of the Act *ibid*.

##### **(i) Maintenance of records of transactions**

APs should introduce a system of maintaining proper record of transactions prescribed under Rule 3, as mentioned below:

- a) all cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;
- b) 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;
- c) all transactions involving receipts by non-profit organizations of value more than Rupees ten lakh or its equivalent in foreign currency [In view of Government of India Notification dated November 12, 2009- Rule 3, sub-rule (1) clause (BA) of PML Rules] ;
- d) 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 or a document has taken place facilitating the transaction; and
- e) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

**(ii) Information to be preserved**

APs are required to maintain all necessary information in respect of transactions referred to in Rule 3 to permit reconstruction of individual transactions including the following information:

- a) the nature of the transactions;
- b) the amount of the transaction and the currency in which it was denominated;
- c) the date on which the transaction was conducted; and
- d) the parties to the transaction

**(iii) Maintenance and Preservation of record**

a) APs are required to maintain the records containing information of all transactions including the records of transactions detailed in Rule 3 above . APs should take appropriate steps to evolve a system for proper maintenance and

preservation of transaction information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, APs should maintain for at least **ten years** from the date of transaction between the AP and the client, all necessary records of transactions, both with residents and non-residents, which will permit reconstruction of individual transactions (including the amounts and types of currency involved, if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

**b)** APs should ensure that records pertaining to the identification of the customer and his address (e.g. copies of documents like passport, driving license, PAN card, voter identity card issued by the Election Commission, utility bills etc.) obtained while undertaking the transaction and during the course of business relationship, are properly preserved for at least **ten years** from the date of cessation of the transaction/ business relationship. The identification records and transaction data should be made available to the competent authorities upon request.

**c)** In paragraph 4.6 of this Circular, APs have been advised to pay special attention to all complex, unusual large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. It is further clarified that the background including all documents/office records/memoranda pertaining to such transactions and purpose thereof should, as far as possible, be examined and the findings at branch as well as Principal Officer's level should be properly recorded. Such records and related documents should be made available to help auditors in their day-to-day work relating to scrutiny of transactions and also to Reserve Bank/other relevant authorities. These records are required to be preserved for **ten years** as is required under Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009 and 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 as amended from time to time.

**(iv) Reporting to Financial Intelligence Unit – India**

**a)** In terms of the PML rules, APs are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

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

**b)** APs should carefully go through all the reporting formats. There are altogether four reporting formats, as detailed in **PART C of Annex-I**, viz. i) Cash Transactions Report (CTR); ii) Electronic File Structure-CTR; iii) Suspicious Transactions Report (STR); iv) Electronic File Structure-STR. The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND. It would be necessary for APs to initiate urgent steps to ensure electronic filing of all types of reports to FIU-IND. The related hardware and technical requirement for preparing reports in an electronic format, the related data files and data structures thereof are furnished in the instructions part of the formats concerned.

**c)** In terms of instructions contained in paragraph 4.3(b) of this Circular, APs are required to prepare a profile for each customer based on risk categorisation. Further, vide paragraph 4.6, the need for periodical review of risk categorisation has been emphasized. It is, therefore, reiterated that APs, as a part of transaction monitoring mechanism, are required to put in place an appropriate software application to throw alerts when the transactions are inconsistent with risk categorisation and updated profile of customers. It is needless to add that a robust software throwing alerts is essential for effective identification and reporting of suspicious transactions.

#### **4.14 Cash and Suspicious Transaction Reports**

##### **A) Cash Transaction Report (CTR)**

While detailed instructions for filing all types of reports are given in the instructions part of the related formats, APs should scrupulously adhere to the following:

**(i)** The Cash Transaction Report (CTR) for each month should be submitted to the FIU-IND by 15th of the succeeding month. Cash transaction reporting by branches to their controlling offices should, therefore, invariably be submitted on a monthly basis and APs should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.

**(ii)** While filing CTR, details of individual transactions below Rupees 50,000 need not be furnished.

**(iii)** CTR should contain only the transactions carried out by the AP on behalf of their customers excluding transactions between the internal accounts of the AP.

**(iv)** A cash transaction report for the AP as a whole should be compiled by the Principal Officer of the AP every month in physical form as per the format specified. The report should be signed by the Principal Officer and submitted to the FIU-India.

**(v)** In case of Cash Transaction Reports (CTR) compiled centrally by APs for the branches at their central data centre level, APs may generate centralised Cash Transaction Reports (CTR) in respect of branches under central computerized environment at one point for onward transmission to FIU-IND, provided:

- a)** The CTR is generated in the format prescribed by Reserve Bank in Para 4.13(iv)(b) of this Circular;
- b)** A copy of the monthly CTR submitted on its behalf to the FIU-India is available at the concerned branch for production to auditors/inspectors, when asked for.

- c) The instruction on 'Maintenance of records of transactions'; 'Information to be preserved' and 'Maintenance and Preservation of records' as contained above in this circular at Para 4.13 (i), (ii) and (iii) respectively are scrupulously followed by the branch.

However, in respect of branches not under central computerized environment, the monthly CTR should continue to be compiled and forwarded by the branch to the Principal Officer for onward transmission to the FIU-IND.

## **B) Suspicious Transaction Reports (STR)**

(i) While determining suspicious transactions, APs should be guided by definition of suspicious transaction contained in PML Rules as amended from time to time.

(ii) 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 APs should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

(iii) APs should make STRs if they have reasonable ground to believe that the transaction, including an attempted transaction, involves proceeds of crime irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009 .

(iv) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, including an attempted 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 once a suspicious transaction

report is received from a branch or any other office. Such report should be made available to the competent authorities on request.

(v) In the context of creating KYC/ AML awareness among the staff and for generating alerts for suspicious transactions, APs may consider the following indicative list of suspicious activities.

Some possible suspicious activity indicators are given below:

- Customer is reluctant to provide details / documents on frivolous grounds.
- The transaction is undertaken by one or more intermediaries to protect the identity of the beneficiary or hide their involvement.
- Size and frequency of transactions is high considering the normal business of the customer.
- Change in the pattern of transactions.

The above list is only indicative and not exhaustive.

(vi) APs should not put any restrictions on transactions where an STR has been made. Moreover, it should be ensured that employees of APs shall keep the fact of furnishing such information as strictly confidential and there is no **tipping off** to the customer at any level.

#### **4.15 Customer Education/Employees' Training/Employees' Hiring**

##### **a) Customer Education**

Implementation of KYC procedures requires APs to demand certain information from customers which may be of personal nature or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for APs to prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

##### **b) Employees' Training**

APs must have an ongoing employee training programme so that the members of the staff are adequately trained to be aware of the policies and procedures relating to prevention of money laundering, provisions of the PMLA and the need to monitor all transactions to ensure that no suspicious activity is being undertaken under the guise of money changing. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently. The steps to be taken when the staff come across any suspicious transactions (such as asking questions about the source of funds, checking the identification documents carefully, reporting immediately to the Principal Officer, etc.) should be carefully formulated by the AP and suitable procedure laid down. The APs should have an ongoing training programme for consistent implementation of the AML measures.

### **c) Hiring of Employees**

It may be appreciated that KYC norms/AML standards/CFT measures have been prescribed to ensure that criminals are not allowed to misuse the system of APs. It would, therefore, be necessary that adequate screening mechanism is put in place by APs as an integral part of their recruitment/hiring process of personnel to ensure high standards.

**Note:- The Government of India had constituted a National Money Laundering / Financing of Terror Risk Assessment Committee to assess money laundering and terror financing risks, a national AML/CFT strategy and institutional framework for AML/CFT in India. Assessment of risk of Money Laundering /Financing of Terrorism helps both the competent authorities and the regulated entities in taking necessary steps for combating ML/FT adopting a risk-based approach. This helps in judicious and efficient allocation of resources and makes the AML/CFT regime more robust. The Committee has made recommendations regarding adoption of a risk-based approach, assessment of risk and putting in place a system which would use that**



**assessment to take steps to effectively counter ML/FT. The recommendations of the Committee have since been accepted by the Government of India and need to be implemented. Accordingly, APs should take steps to identify and assess their ML/FT risk for customers, countries and geographical areas as also for products/ services/ transactions/delivery channels, in addition to what has been prescribed in the paragraph 4.3 and 4.8 above. APs should have policies, controls and procedures, duly approved by their boards, in place to effectively manage and mitigate their risk adopting a risk-based approach as discussed above. As a corollary, APs would be required to adopt enhanced measures for products, services and customers with a medium or high risk rating. APs may design risk parameters according to their activities for risk based transaction monitoring, which will help them in their own risk assessment.**

**PART B**

**Customer Identification Procedure**

**Features to be verified and documents that may be obtained from customers**

<b>Features</b>	<b>Documents</b>
<p><b>Transactions with individuals</b></p> <p>- Legal name and any other names used</p> <p>- Correct permanent address</p>	<p>(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving licence (v) Identity card (subject to the AP's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the AP</p> <p>(i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the AP)</p> <p>(any one of the documents, which provides customer information to the satisfaction of the AP will suffice )</p> <p>Note :- (1) If the address on the document submitted for identity proof by the prospective customer is same as that declared by him/her, the document may be accepted as a valid proof of both identity and address. If the address indicated on the document submitted for identity proof differs from the current address declared by the customer, a separate proof of address should be obtained.</p> <p>(2) In case of foreign tourists, copies of passport containing identification particulars and address, may be accepted as documentary proof for both identification as well as address. Further, a copy of the visa of non-residents, duly stamped by</p>

	<p>Indian Immigration authorities may also be obtained and kept on record. However, where neither passports contain any address nor foreign tourists are able to produce any address proof, APs may obtain and keep on record, a copy of passport and visa duly stamped by the Indian Immigration authorities and a declaration duly signed from foreign tourists regarding the permanent address.</p>
<p><b>Establishment of business relationship- corporates</b></p> <ul style="list-style-type: none"> <li>- Name of the corporate</li> <li>- Principal place of business</li> <li>- Mailing address of the corporate</li> <li>- Telephone/Fax Number</li> </ul>	<p>One certified copy each of the following documents.</p> <ul style="list-style-type: none"> <li>(i) Certificate of incorporation</li> <li>(ii) Memorandum &amp; Articles of Association</li> <li>(iii) List of officials with names, designation and signatures authorized by the Managing Director / Chief Financial Officer of the company to conduct forex transactions on behalf of the company</li> <li>(iv) PAN Card</li> <li>(v) Telephone Bill</li> </ul> <p><b>Note:</b> Corporate should invariably pay to AMCs towards rupee leg of forex transactions through a cheque/bank account of corporate irrespective of the amount of forex transaction</p>

<p><b>Establishment of business relationship- partnership firms</b></p> <p>-Legal name          -Address          -Names of all partners and their addresses          -Telephone/ Fax numbers of the firm and partners</p>	<p>One certified copy each of the following.</p> <p>(i) Registration certificate, if registered          (ii) Partnership deed          (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf          (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney, their addresses and their signatures.          (v) Telephone bill in the name of firm/ partners.</p>
<p><b>Establishment of business relationship- trusts and foundations</b></p> <p>-Names of trustees, settlers, beneficiaries and signatories          -Names and addresses of the founder, the managers/ directors and the beneficiaries          -Telephone/ Fax numbers</p>	<p>One certified copy of each of the following.</p> <p>(i) Registration certificate, if registered          (ii) Power of Attorney granted to transact business on its behalf          (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/ managers/ directors and their addresses          (iv) Resolution of the managing body of the foundation/ association          (v) Telephone bill</p>

**List of various reports and their formats**

1. Cash Transaction Report (CTR)
2. Electronic File Structure- CTR
3. Suspicious Transaction Report (STR)
4. Electronic File Structure-STR

**For the formats of the above reports, please refer to the attachments after (F-Part-III) [Annex to A.P. (DIR Series) Circular No.17 {A.P. (FL/RL Series) Circular No. 4} dated November 27, 2009]. APs may also visit the website of the FIU-IND, i.e., <http://fiuindia.gov.in>**

*Note: FIU-IND have now advised that the 'go-live' date is October 20, 2012 and that Authorised Persons, who are Indian agents under MTSS may discontinue submission of reports in CD format after October 20, 2012, using only FINnet gateway for uploading of reports in the new XML reporting format. Any report in CD format received after October 20, 2012 will not be treated as a valid submission by FIU-IND.*

**Annex-II**

**[See SECTION I, Paragraph 2 (ii)]**

**Application Form for FFMC licence under section 10(1) of FEMA, 1999**

1.	Full name of the applicant	
2.	Address in full	
3.	Name of location/s to where the applicant proposes to conduct Money Changing Business (Please enclose copies of the Licences under Shops and Establishment Act)	
4.	(a) Date of establishment of the company  (b) Name/s and address/es of the Directors of the company	
5.	Copy of the Certificate of Registration (Certificate of Incorporation & Certificate of Commencement of Business) of the company	
6.	Copy of Memorandum of Association together with a letter indicating the clause which provides for taking up money changer's business.	
7.	Confidential report from the applicant's bank/s in CIR format.	
8.	Net Owned Funds  A copy of the latest Audited Balance Sheet of the applicant company together with a certificate from their Statutory Auditors certifying their Net Owned Funds as on the date of application and calculation thereof is to be enclosed.	Rs.
9.	Declaration to the effect that the company or any of its directors are not under investigation/adjudication of any law enforcing agencies, such as	

	DoE/DRI and also that no criminal proceedings filed by Crime Investigation Agencies are pending against the company or any of its directors.	
10.	Undertaking to post competent staff to handle the money changer's business.	
11.	Name, designation of persons authorised to deal in foreign exchange.	
13.	A brief write up of the activities of the applicant/nature of business.	
14.	Whether the applicant had applied earlier for FFMC / RMC licence. If so, the particulars thereof.	
15.	Any other particulars / special reasons the applicant may wish to state in support of the application.	

We undertake that in the conduct of money changing business, we shall at all time abide by the rules/regulations/orders/directions/notifications which Reserve Bank may from time to time issue in this behalf.

Place:

Date:

Signature of the applicant with seal

Enclosures:

1. Bankers' confidential Report
2. Attested copies of audited accounts for the past 3 years.

Note: Single branch FFMCs shall have Net Owned Funds not less than Rs.25 lakhs while FFMCs intending to operate through more than one branch will have to maintain Net Owned Funds not less than ₹.50 lakhs.

**Annex-III**

**[See SECTION III, Paragraph 4]**

**Form RMC-F**

1.	Name of the AD/ FFMC	
2.	Name and address of the franchisee	Details of locations
	(i)	
	(ii)	
	(iii)	
	Etc.	
3.	Existing business activity of the franchisee	
4.	Net Owned Funds	
5.	Shop & Establishment/ other applicable municipal certification in favour of the franchisee	
6.	Conduct certificate of the franchisee from the local police authorities. (certified copy of Memorandum and Articles of Association and Certificate of Incorporation in respect of incorporated entities)	
7.	Declaration regarding past criminal case, if any, cases initiated/ pending against the franchisee or its directors/ partners by any law enforcing agency, if any	
8.	PAN Numbers of the franchisee and its directors/ partners	
9.	Arrangements in place to surrender the foreign exchange	
10.	AML, Reporting, Audit and Inspection arrangements	

We declare that while selecting the franchisees adequate due diligence has been carried out and that such entities have undertaken to comply with all the provisions of the franchising agreement/prevaling RBI regulations regarding money changing.

Place:-

Date :-

Authorized Signatory



[See SECTION V , Paragraph 14 (i) (a)]

FLM 1**Daily Summary and Balance Book**  
(Foreign Currency notes/coins)

Date: \_\_\_\_\_

	<b>Pound Sterling</b>	<b>U.S. Dollar</b>	<b>Euro</b>	<b>Yen</b>	<b>Other (Pl. specify)</b>
<b>I. Opening Balance</b>					
<b>II. Add: Purchases</b>					
(i) Purchases from the public					
(ii) Purchases from authorized dealers, money-changers and franchisees					
(iii) Import from abroad for replenishment of stock					
<b>Total purchases</b>					
<b>Total (I + II)</b>					
<b>III. Less Sales:</b>					
(i) Sales to public					
(ii) Sales to authorized dealers/ full-fledged money changers					
(iii) Despatched abroad for realization					
<b>Total Sales</b>					
<b>IV. Closing Balance (I + II - III)</b>					

**N.B:** In cases where forged notes etc. are detected, the closing balance may be adjusted with remarks indicating the amount and the reasons for writing off.

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

[See SECTION V , Paragraph 14 (i) (b)]

**FLM 2**  
**Daily Summary and Balance Book**  
 (Travellers' cheques)

Date: \_\_\_\_\_

	Pound Sterling	U.S. Dollar	Euro	Yen	Other (Pl. specify)
I. Opening Balance					
II. Add: 1) Purchases from the public 2) Purchases from others (including fresh stock received)					
Total (I + II)					
III. Less :1) Sales to public 2) Surrender to ADs/FFMCs 3) Exports					
IV. Closing Balance (I + II - III)					

Pre-paid cards sold

No.Amount.

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

**Note:- Stock register of blank travellers' cheques/ smart cards in various denominations obtained from authorized dealers/ TC issuers/ other agencies for sale to travellers under Basic Travel Quota or for business visit should be maintained and balanced on a daily basis.**

## Annex-VI

[See SECTION V , Paragraph 14 (i) (c)]

FLM 3

## Register of purchases of foreign currencies from the public

Date	Sr. No.	Name of the tenderer	Nationality & Full Address	Details of Identification documents	Pound Sterling	U.S. Dollar	Euro
1.	2.	3.	4.	5.	6.	7.	8.

Japanese Yen	Others (Pl. specify)	Rate	Rupee Equivalent	Encashment certificate No. and date	Remarks
9.	10.	11.	12.	13.	14.

- NOTES: (1) If the money-changer is dealing in a large number of currencies, two or more registers currency- wise or otherwise may be maintained, as convenient.
- (2) If travellers cheques are purchased, the prefix, "TC" may be indicated in the amount column.
- (3) If more than one currency is purchased from the same tenderer, separate entries may be made.

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

Annex-VII

[See SECTION V , Paragraph 14 (i) (d)]

FLM 4

Register of purchases of foreign currency notes/coins from  
Authorised dealers and authorised money-changers

Date	Sr. No.	Name and address of the authorised dealer/ authorised money-changers from whom purchased	Currency	Amount	Rate	Rupee equivalent	Remarks
1.	2.	3.	4.	5.	6.	7.	8.

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

## Annex-VIII

[See SECTION V , Paragraph 14 (i) (e)]

FLM 5Register of sales of foreign currencies to the public

Date	Sr. No.	Name of the tenderer	Nationality & Full Address	Details of Identification Document	Name of the sponsoring Organisation	Country/ies of visit	Purpose of visit	Duration of stay abroad (No. of days)
1.	2.	3.	4.	5.	6.	7.	8.	9.

Particulars of foreign currency notes/coins/TCs/pre-paid cards			Rate	Rupee equivalent	Commission charged, if any	Total amount received		Cash Memo No. & Date	Remarks
Name of currency	Amount in Notes/coins	Amount in TCs/cards				By Cash	By Cheque		
10.	11.	12.	13.	14.	15.	16.	17.	18.	19.

NOTES: (1) If the money-changer is dealing in a large number of currencies, two or more registers currency-wise or otherwise may be maintained, as convenient.

(2) *If more than one currency is sold, separate entries may be made*

(3) The columns 6 and 9 to be filled in case of release of exchange for business purpose

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

[See SECTION V , Paragraph 14 (i) (f)]

**FLM 6****Register of sales of foreign currency notes/coins to authorised dealers / full fledged money changers/overseas banks**

<b>Date</b>	<b>Sr. No.</b>	<b>Name and address of the authorised dealer/full fledged Money changer/ overseas bank to whom sold</b>	<b>Currency</b>	<b>Amount</b>	<b>Rate</b>	<b>Rupee Equivalent received</b>	<b>Remarks</b>
<b>1.</b>	<b>2.</b>	<b>3.</b>	<b>4.</b>	<b>5.</b>	<b>6.</b>	<b>7.</b>	<b>8.</b>

Note :- Necessary entries in the register should be made before the funds are taken out of the premises, not after delivery of funds.

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

Annex-X

[See SECTION V, Paragraph 14 (i) (g)]

FLM 7

Register of travellers cheques surrendered to authorised dealers/authorised money changers/exported

Date	Sr. No.	Name and address of the Authorised dealer/authorised money changer/TC issuer/authorised agent to whom sold	Travellers cheque No.(s)	Amount	Rate	Rupee Equivalent received	Remarks
1.	2.	3.	4.	5.	6.	7.	8.

Date:

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

[See SECTION V , Paragraph 15 (i)]

**FLM 8**

(For FFMCS)

**Summary statement of purchases and sales of foreign currency notes during  
the month of \_\_\_\_\_ 20**

Name and address  
of money changer

RBI Licence No. \_\_\_\_\_

	USD	GBP	EURO	JPY	Others (Specify)
<b>A. Opening balance</b>					
Purchases of foreign currency notes from					
(a) Public					
(b) RMCs/FFMCs/ADs including imports.					
(c) Agents/Franchisees					
<b>B. Total Purchases (a) + (b) + (c)</b>					
Sales of foreign currency notes under					
(a) BTQ					
(b) Business Visits					
(c) Sales to other FFMCS/ADs including exports					
<b>C. Total Sales [ (a) + (b) + (c) ]</b>					
Closing balance (A+B - C)					

We hereby certify that the statement is a true and correct account of all transactions undertaken during the month in accordance with the Foreign Exchange Regulations.

Place:

(Signature of Authorized Official)

Date :

Stamp

Name: \_\_\_\_\_

Designation \_\_\_\_\_



**FLM 8**  
**(For ADs Category-II)**

**Summary statement of purchases and sales of foreign currency notes during  
the month of \_\_\_\_\_ 20**

**Name and address  
of the Authorised  
Dealer Category-II**

**RBI Licence No. \_\_\_\_\_**

	USD	GBP	EURO	JPY	Others (Specify)
<b>A. Opening balance</b>					
Purchases of foreign currency notes from					
(a) Public					
(b) RMCs/FFMCs/ADs including imports.					
(c) Agents/Franchisees					
<b>B. Total Purchases (a) + (b) + (c)</b>					
Sales of foreign currency notes under (with purpose codes)					
(a) (i) BTQ / (ii) Private Visits (S0302)					
(b) (i) Business Visits/ (ii) Business Travel (S0301)					
(c) Remittance by tour operators / travel agents to overseas agents / principals / hotels (S0306)					

<p>(d) Film shooting (S1101)</p> <p>(e) Medical Treatment abroad (S0304)</p> <p>(f) Disbursement of crew wages (S1401)</p> <p>(g) Overseas Education(S0305)</p> <p>(h) (i) Fee for participation in global conferences and specialized training / (ii) Remittance for participation in international events / competitions (towards training, sponsorship and prize money)/ (iii) Remittance under educational tie up arrangements with universities abroad/(iv) Remittance towards fees for examinations held in India and abroad and additional score sheets for GRE, TOEFL etc./ (v) Employment and processing, assessment fees for overseas job applications/(vi) Skills / credential assessment fees for intending migrants/(vii) Visa fees /(viii) Processing fees for registration of documents as required by the Portuguese / other Governments/</p>					
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(ix) Registration / Subscription / Membership fees to International Organizations (S1102)					
(h) Emigration Fees (S1202)					
(i) Emigration Consultancy Fees (S1006)					
(k) Sales to other FFMCS/ADs including exports					
<b>C. Total Sales [ (a) + (b) + (c) + (d) + (e) + (f) + (g) + (h)+ (i) + (j)+ (k) ]</b>					
Closing balance (A+B - C)					

We hereby certify that the statement is a true and correct account of all transactions undertaken during the month in accordance with the Foreign Exchange Regulations.

Place:

(Signature of Authorised Official)

Date :

Stamp

Name: \_\_\_\_\_

Designation : \_\_\_\_\_

[See SECTION V, Paragraph 15 (ii)]

**Statement of Purchase transactions of USD 10,000 and above for the month of**

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Date of transaction	Name and address of the person surrendering the foreign currency	Amount
		Currency/ TCs

Signature of Authorized Official  
with Seal

**Annex- XIII**

[See SECTION V, Paragraph 15 (iii)]

**Statement showing summation of Foreign Currency Account opened in India out of export proceeds of Foreign Currency Notes/ encashed Travellers'**

**Cheques** for the quarter ended \_\_\_\_\_

(Value in USD)

Opening Balance in the Account	Value of foreign currency notes/ encashed TCs exported	Amount realized in foreign currency	Of Column 3 amount credited to Foreign Currency Account	Amount remitted to TC issuing organization from TCs sold/ Debited for purchase of foreign currency notes from ADs	Maximum balance maintained on any day in the foreign currency account during the quarter	Closing balance in the Foreign Currency Account	Remarks
1.	2.	3.	4.	5.	6.	7.	8.

Certified that the above particulars are correct as per our records.

Name and address of the AD Category - I

Signature of Authorized Official of  
the AD Category - I with Seal

[See SECTION V, Paragraph 15 (iv)]

**Statement of the amount of foreign currency written off during the financial year ended \_\_\_\_\_**

Name of the FFMC/ AD Category-II :

A. Total amount written-off (in equivalent USD) :-

B. Details of the amount written-off :-

Sr. No.	Date of write-off	Amount of foreign currency (with currency-wise break-up)	On account of *	Approved by FFMC/AD Category-II/ Reserve Bank
1.	2.	3.	4.	5.
		Total :		

\* Please indicate whether on account of being found to be fake or forged/ theft/ lost in transit, etc.

Signature of Authorized Official  
with Seal

## Appendix

### List of A.P.(DIR Series) Circulars which have been consolidated in the Master Circular on Memorandum of Instructions governing money changing activities

SI. No.	A.P.(DIR Series) Circular	Date
1.	<a href="#">A.P. (DIR Series) Circular No. 43 [ A.P.(FL Series) Circular No.1]</a>	November 12, 2002
2.	<a href="#">A.P. (DIR Series) Circular No.57[ A.P.(FL/RL Series) Circular No. 04]</a>	March 9, 2009
3.	<a href="#">A.P. (DIR Series) Circular No.06 [A.P.(FL/RL Series) Circular No. 01]</a>	August 3, 2009
4.	<a href="#">A.P. (DIR Series) Circular No. 17 [ A.P.(FL Series) Circular No. 04]</a>	November 27, 2009
5	<a href="#">A.P.(DIR Series) Circular No.18 [ A.P.(FL Series ) Circular No. 01]</a>	November 25, 2010
6	<a href="#">A.P. (DIR Series) Circular No.20 [A.P. (FL/RL Series) Circular No.03]</a>	November 30, 2010
7	<a href="#">A.P. (DIR Series) Circular No.24 [A.P. (FL/RL Series) Circular No.05]</a>	December 13, 2010
8	<a href="#">A.P. (DIR Series) Circular No.25 [A.P. (FL/RL Series) Circular No.06]</a>	December 22, 2010
9	<a href="#">A.P. (DIR Series) Circular No.27 [A.P. (FL/RL Series) Circular No.08]</a>	December 22, 2010
10	<a href="#">A.P. (DIR Series) Circular No.40 [A.P. (FL/RL Series) Circular No.10]</a>	January 25, 2011
11	<a href="#">A.P. (DIR Series) Circular No.49 [A.P. (FL/RL Series) Circular No.11]</a>	April 06, 2011
12	<a href="#">A.P. (DIR Series) Circular No.51 [A.P. (FL/RL Series) Circular No.13]</a>	April 06, 2011
13	<a href="#">A.P. (DIR Series) Circular No.61</a>	May 16, 2011
14	<a href="#">A.P. (DIR Series) Circular No.63</a>	May 20, 2011
15	<a href="#">A.P. (DIR Series) Circular No.65</a>	May 20, 2011
16	<a href="#">A.P.(DIR Series) Circular No.21</a>	September 19, 2011
17	<a href="#">A.P.(DIR Series) Circular No.23</a>	September 19, 2011
18	<a href="#">A.P.(DIR Series) Circular No.31</a>	October 03, 2011
19	<a href="#">A.P.(DIR Series) Circular No.33</a>	October 12, 2011
20	<a href="#">A.P.(DIR Series) Circular No.38</a>	October 25, 2011
21	<a href="#">A.P.(DIR Series) Circular No.41</a>	November 01, 2011
22	<a href="#">A.P.(DIR Series) Circular No.60</a>	December 22, 2011
23	<a href="#">A.P.(DIR Series) Circular No.71</a>	January 30, 2012
24	<a href="#">A.P.(DIR Series) Circular No.77</a>	February 15, 2012
25	<a href="#">A.P.(DIR Series) Circular No.86</a>	February 29, 2012
26	<a href="#">A.P.(DIR Series) Circular No.104</a>	April 04, 2012
27	<a href="#">A.P.(DIR Series) Circular No.107</a>	April 17, 2012
28	<a href="#">A.P.(DIR Series) Circular No.109</a>	April 18, 2012

29	<a href="#">A.P.(DIR Series) Circular No.17</a>	August 23, 2012
30	<a href="#">A.P.(DIR Series) Circular No.33</a>	September 24, 2012
31	<a href="#">A.P.(DIR Series) Circular No.42</a>	October 12, 2012
32	<a href="#">A.P.(DIR Series) Circular No.50</a>	November 07, 2012
33	<a href="#">A.P.(DIR Series) Circular No.51</a>	November 15, 2012
34	<a href="#">A.P.(DIR Series) Circular No.68</a>	January 02, 2013
35	<a href="#">A.P.(DIR Series) Circular No.70</a>	January 10, 2013
36	<a href="#">A.P.(DIR Series) Circular No.72</a>	January 10, 2013
37	<a href="#">A.P.(DIR Series) Circular No.84</a>	February 22, 2013
38	<a href="#">A.P.(DIR Series) Circular No.96</a>	April 5, 2013
39	<a href="#">A.P.(DIR Series) Circular No.101</a>	May 3, 2013
40	<a href="#">A.P.(DIR Series) Circular No. 34</a>	September 04, 2013
41	<a href="#">A.P.(DIR Series) Circular No. 45</a>	September 16, 2013
42	<a href="#">A.P.(DIR Series) Circular No. 97</a>	January 20, 2014